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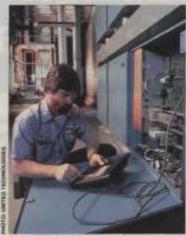
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#### MANAGING YOUR BUSINESS

**Cover Story** 

18

When cash is short and goods are not moving, there are still ways to make a purchase. More and more businesses are bypassing ordinary financial transactions in favor of old-fashioned barter—with a lot of new-fangled technology.

18

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Successful start-ups are not the rule, but those entrepreneurs who manage to do it have much in common, beginning with determination.

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74

Even small businesses have a chance at wholesale prices when they take advantage of the wholesale clubs springing up around the country, specifically designed for their needs.

#### **No Longer Private**

7

CEOs who have taken their companies public do not regret the decision but have had to learn that they must play to a larger audience.

#### The Sure Hand of Danforth

Westinghouse's CEO has pulled together a diverse corporate empire that has gone beyond appliances into high tech and cable television. And his personal domain includes llamas.

#### Sizing Up a Jury

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This consulting company uses psychology to help lawyers get the right kind of jury.

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#### Strategies for Success

100

Two Atlanta entrepreneurs are helping busy modern executives find old-fashioned child care.

A "poor, sweaty practicing psychiatrist" finds ways of helping other psychiatrists—at a profit.

Not everything in the communications business is high tech, James Fri and Jimmy Glover found.

When government and industry need an environmental audit, Paul Woodruff is there.

#### **BUSINESS ISSUES**

#### Growth, Not Inflation

1

Officials of the Fed who once thought inflation would be above 5 percent are now revising the estimate down—and growth estimates up.

#### A New Trade Vessel

89

The legal path has been cleared for American firms to form export trading companies; they will be ready when the trade winds change.

#### Assault With a Deadly Vehicle

90

The recordkeeping rules formulated by the IRS for personal use of company property raised the business community's ire. The rules have been modified, but not enough for most.



Sometimes small businesses have trouble getting wholesale prices. Clubs like PACE can help.



Business people like Mike Schiflet are angry about IRS rules on the use of personal property.

90

#### SMALL BUSINESS

#### Pressure From Access Fees

Small business has felt exceptional pressure from the new telephone access fees, and the FCC is being asked to revise them. Also: business plans, payroll taxes, contract management.

#### TECHNOLOGY

#### Scuttling Software Pirates

Stealing software for personal computers has become a major problem, and the industry's trade group is making efforts to put a stop to it. Also: making your computer talk.

#### SPECIAL REPORT: THE HIGH TECH OFFICE

#### Getting on the Network

Personal computers have multiplied the efficiency of office workers. Now linking up PCs with networks can multiply it again.

#### **Custom Software**

36

Buying an office system is only the first step; managers need service and tailored software.

#### An Office Away From the Office

The technology is almost at hand to make working at home possible; but most employes still prefer the office.

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#### James J. Kilpatrick

Jesse Helms' challenge could be healthy for CBS.

#### Letters

Employe benefits, IRS rules, day-

#### Washington Letter

light saving time.

An inside report on events and trends in the nation's capital.

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There are myths about drinking that should be forgotten.

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#### **Tilting at Newsmills**

N JANUARY 21 Sen. Jesse Helms (R-N.C.) sent a letter to a million persons who had been identified as conservatives through previous mailings. He did not mince words. He asked recipients to buy stock in CBS and then, if necessary, "to vote that stock to take control of that network." His object is to elect directors who would be committed "to ending the liberal bias" of CBS News.

Around the country the reaction to the senator's letter was mostly haw-haw-haw. At CBS, Vice President Mary Boies put out a statement that breathed virtue in every line. "CBS News," she said, "reports

the news as accurately and fairly as it can, independent of any political point of view." For the senator to seek control of CBS "for the sole purpose of subjecting a news operation to political influence contradicts the tradition of a free and independent press."

On the surface, it surely appears that the senator and his colleagues have bitten off more than they can chew. Almost 29.8 million shares of CBS stock are publicly held. Over the past year the stock has traded between 61 and 88; recently it was selling for around \$77 a share. To "take control" of the network would require the kind of massive effort and investment that prudent people do not take lightly. The odds are a hundred to one that nothing will come of the senator's quixotic venture except to run up the

CBS stock by a few points and thus to enhance the fortunes of William S. Paley by a few more million.

Dan Rather still sleeps well at night.

Yet the key people at CBS, and at other networks and at major newspapers also, might be well advised not to brush off Ol' Jesse with a ho-ho-ho. The senator's letter was financed by a new outfit, Fairness in Media, based in Raleigh, N.C. The leaders of FIM were able to muster \$1 million to finance the original mailing. That ain't hay. If CBS does not know, it ought to know that out in this broad land, many miles from the Potomac and the Hudson, there exists profound resentment of what is perceived as liberal bias on TV. The feeling is both deeply and widely held.

There is some empirical evidence to support this antipathy. In 1982 Profs. Robert Lichter and Stanley Rothman published data turned up by a survey they had made of 240 top-level journalists and broadcasters. By their own description, 54 percent of the respondents placed themselves "to the left of center." Only 19 percent identified themselves as conservative; asked about their fellow workers, they thought 8 percent might be so described.

Keep in mind that the sample included only those key editors and executives who decide what is news. Within this group, 84 percent had voted for Johnson in 1964, 87 percent for Humphrey in 1968, 81 percent for McGovern in 1972 and 81 percent for Carter in 1976.

As a group, the Lichter-Rothman survey found, the respondents overwhelmingly support abortion, affirmative action, women's rights, sexual freedom and greater protection of the environment.

A different study was conducted by researchers for TV Guide. In August, 1983, the study reported

that 52 percent of CBS stories that dealt with the President were "anti-Reagan." The corresponding figure at NBC was 10 percent, at ABC 12 percent.

Notice might also be taken of an almost forgotten dispute in 1972-73 between the respected Institute for American Strategy and CBS News. The institute, convinced that CBS had been "shockingly biased" in its coverage of defense matters, presented voluminous evidence to that effect. CBS stonewalled. The institute, antedating the senator, then worked up a shareholders' proposal calling for the network to create a "Committee of Corporate Responsibility" to deal with charges of unfairness. The proxy statement was defeated over-

statement was defeated overwhelmingly.

Let me inject a personal word. I have had the good fortune to know many of the top news people at CBS and to work with them. I know them to be professionals of the first rank. I am certain they strive for objectivity in their news coverage. I am just as certain that objectivity can never be perfectly attained. The rigid format of TV news limits the coverage of most stories to a lick and a promise; there is not time for development of both

mortal beings. They are as mortal as appellate judges. Every reporter who covers the courts knows that judges do not take off their prejudices when they put on their robes. Judges bring to the bench the accumulated likes, dislikes, doubts and convictions of a lifetime. So, too, with the men and women who decide what stories will make the air tonight and what stories will be left out. The senator from North Carolina has every right to pursue a course that might bring different mortals with different prejudices to the evening news. If his effort serves only to cause CBS to strive a little harder, he can count net gain.



CBS might be well advised not to brush off Ol' Jesse.

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#### **LETTERS**

#### Where The Buck Stops

"Passing the Buck on Benefits" [February] is an excellent summary of the case against many of the Treasury Department's tax reform recommendations.

I would particularly like to underscore the key points made by Dallas Salisbury, president of the Employee Benefit Research Institute, in demonstrating that employe benefits are spread across the income spectrum.

Other aspects of the Treasury proposals would also impact all income levels. For example, we found that the proposal to tax the cash accumulation in individual life insurance policies would hurt many lower and middle income families. Most life insurance policies are bought by persons earning less than \$25,000 a year. And more than three fourths of death benefits go to widows, children and other family survivors.

We agree with Sen. Robert Packwood in his statement that those who are threatened by these proposals must educate Congress on this issue, lest the taxes pass before anyone hears about them.

EDWARD E. PHILLIPS

Chairman American Council of Life Insurance Washington

It is frustrating to hear managers complain about the out-of-control cost of benefits—and then refer to them as "fringes."

There is nothing "fringe" about benefits, either as a cost of doing business or as an important element in an employe's overall compensation package.

"Fringe" sounds like an afterthought. It does not do justice to the importance of benefits in today's world.

Norman Haddad Manager, Human Resources The West Company St. Petersburg, Fla.

#### A real lemon

The recent changes in the tax laws requiring extensive recordkeeping on the business use of automobiles have made just about the best case for a flat tax that I can imagine.

American business should not be penalized for not building fenced-in lots to store company-owned vehicles for the night. American employes should not be penalized for storing and guarding their employers' automobiles in return for the privilege of driving them to and from work.

Keeping logs will prove very costly for small business. If it takes one minute to log the mileage, destination, contact and nature of the visit, that equals 16,000 hours per million entries. Somebody will have to pay for that bookkeeping. MARVIN E. RICHARDSON

> President Mississippi Time Instruments Company Jackson, Miss.

Editor's note: The Internal Revenue Service has recently withdrawn some of the recordkeeping rules it issued on the business use of autos, but business is continuing its efforts for repeal of the underlying statutory provisions. See page 90 in this issue.

#### Tuned out

In your "Best Business Advertising" survey [February], you give your readers an opportunity to vote on print and television advertising. You ignore ra-

How can you? Radio billed over \$5 billion last year. Radio enjoyed in 1984 a 151/2 percent increase in billings.

So how can NATION'S BUSINESS ignore the sound medium?

FRED E. WALKER President **Broad Street Communications** Corporation New Haven, Conn.

Editor's note: Your point is well taken. We realize that radio is an increasingly important element in the business-to-business advertising mix. Unfortunately, this year our nominating panel (creative directors from many of the country's top ad agencies) did not nominate enough radio commercials for use. We hope that next year radio will be included.

#### Who should vote?

I was appalled that 71 percent of those responding to your poll ["Where I Stand," January] thought that the homeless should not be allowed to vote. If your respondents' concern is for fraud-free elections-rather than for

Send letters to Editor, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

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#### Next Month in Nation's Business

#### High Tech and Your New Car

Technology is rapidly changing the way we make, sell and use motor vehicles. This linkup of Silicon Valley and Detroit is not only reshaping the auto industry, it will also have a major impact on the way much of industrial America operates.

#### Organized Labor After the Fall

A long series of legislative and political defeats, culminating in the humiliating defeat of its chosen presidential candidate last November, has raised questions about whether big labor has a viable future.

#### **Turnaround on Bankruptcy**

Businesses that had suffered severely from the excessive liberalization of bankruptcy laws finally won passage of remedial legislation. But it only went so far, and more corrective action is needed to resolve the problem.

#### What's Ahead for the Economy

After a brief stumble late last year, the U.S. economy is again surging ahead, strengthening President Reagan's hand in his fight to implement his latest fiscal program. But some problems persist.







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#### LETTERS

the voting rights of our citizens, homeless or not-they should hold election officials responsible.

If the homeless are denied the vote, who will be next? I hope that your readers do not accurately reflect the feel-D.H. BURNS ings of the nation.

Knoxville, Tenn.

#### Daylight's a fright

Re: proposals to extend daylight saving time ["Where I Stand," January].

Daylight saving time has served no purposes except recreation, drinking and teen-age deterioration. Congress should set one time and let it stand the year around. What a sham!

DARLENE MUELLER President Moravits Farms Prairie du Chien, Wis.

This letter cannot express my feelings about dabbling with the clock. I am for leaving the clock alone. I do not care where it is set, but let's set it and leave it alone.

Let's face it: There are just so many daylight hours in a given day, Juggling the hands on the clock cannot change that.

If people in a specific business want to start early so they have more time at the end of the day, fine. Let the workers vote, then abide by majority rule.

BETTY GENE MASSIE Secretary-Treasurer Massie Pole Yard, Inc. Van Buren, Mo.

#### The best qualified

Re: "Casting the First Stone" [James

J. Kilpatrick, February].

The entire plea of the author is to be patient and reflective with South Africa. He cites several examples of the time through which the United States passed before certain corrective actions were taken regarding the racial problem in this country.

The examples are well taken, but there is a lesson other than patience to be drawn from them. A mistake is good only when we can learn something from it. The United States is the best qualified to speak on this issue because of our first-hand knowledge of our own mistakes. Everything in our history authorizes us to scorn South Africa.

The United States should say to South Africa: Minimize your losses, regain your respect in the international community, and do not waste valuable time and resources—as we did—before correcting a basic wrong.

ELSIE C. WALKER Newport News, Va. The Chamber of Commerce of the United States. publisher of NATION'S BUSINESS, is a federation of businesses, trade associations. local and state chambers, and American chambers of commerce abroad.

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### WASHINGTON LETTER

- PRESIDENT REAGAN HAS HISTORY on his side in historic budget debate now under way. Since budget initiative moved from Congress to White House with creation of executive budget office many years ago, presidential fiscal plans have generally been approved by legislators with relatiyely few substantial changes. Pattern appears to be recurring now. President's new spending plan for 1985-86 immediately became focal point for fiscal policy debate. Likelihood that Senate Republicans advocating own spending plan or House Democrats pushing tax increases would seize budget leadership from President has all but vanished. Debate will now be conducted on Reagan's terms.
- THAT'S NOT TO SAY there won't be many tough battles over specific budget proposals, particularly spending levels for defense, social programs and farm supports. Also, over the President's call for such steps as elimination of revenue sharing and termination of Small Business Administration. There could be compromises in those and other areas, but end result will take budget far down road President wants to travel.
- ► COALITION OF BUSINESS ORGANIZATIONS offers President plan to make his deficit control initiatives even more effective. Proposal would impose broad freeze on federal spending through 1986, impose restraints to moderate increases thereafter. Includes call for eliminating cost-of-living increases in Social Security, other social programs, with increases after 1986 to be held to levels less than full inflation rate. Plan would also moderate defense increases. Calls for fundamental reforms of farm subsidy programs, implementation of Grace Commission recommendations to improve effectiveness and efficiency of social programs based on demonstrated need. Members of coalition

- are U.S. Chamber of Commerce, National Association of Manufacturers, National Federation of Independent Business, American Business Conference, National Association of Realtors, National Association of Wholesaler-Distributors and American Electronics Association.
- STATES ARE PRESSING CONGRESS to release more than \$7 billion in highway
  funds blocked by Capitol Hill fights
  over pet spending projects of some key
  members. Money was paid into highway
  fund by motorists via gasoline taxes
  and other user fees. States are running
  out of federal highway funds in pipeline, need commitment from Washington
  to authorize new road projects.
- ▶ BACKERS OF IMMIGRATION REFORM talk compromise, but provision that drew stiff opposition from business is likely to remain in new bills offered this year. Employer sanctions, under which those who hired illegal aliens could be subject to penalties, remain central aspect of legislation. Immigration reform measures failed last year in face of opposition from business, Hispanic and civil rights organizations. Business objected to policy of putting enforcement burden, with heavy paper work requirements, on companies. Employers argued that proposed sanctions might deter hiring of American citizens who appeared to be of foreign origin. Hispanic and civil rights groups also expressed concern over possible discrimination arising from enforcement of proposed law.
- ANALYSIS OF FEDERAL PENSIONS by major consulting firm will strengthen hand of members of Congress supporting President Reagan's proposal to modify those benefits. Towers, Perrin, Forster & Crosby, in study prepared for U.S. Office of Personnel Management, says present system works against women and government workers at lower end of job

#### **WASHINGTON LETTER**

scale, who tend to enter and leave system without building up significant retirement benefits. Big winners, study says, are mainly white males, who tend to build up retirement benefits at relatively higher rate than other categories. Federal rules allow retirement with full benefits at age 55 after 30 years' service. Donald Devine, director of federal personnel office, says study confirms his view that present retirement policies are unfair, as well as excessively costly. He recommended reforms incorporated into Reagan budget.

- ▶ GENERAL ACCOUNTING OFFICE issues this month preliminary report on what would be involved in implementing "comparable worth" concept in federal employment. Bills calling for analysis of feasibility of comparable worth have been introduced in Congress. Proponents say workers should be paid the same if value of work they perform, regardless of specific skills involved, is equal. Opponents, including business, see proposals as foot-in-door approach to imposition of comparable worth criteria on public, then private employers.
- THREE-WAY BATTLE SHAPING UP over future of federal funding for local sewage-treatment plants, which has been running at \$2.4 billion per year. House bill would double federal spending over next five years; Senate bill would keep it at current level, administration budget would begin phasing out program in 1987 fiscal year.
- ▶ ANOTHER MAJOR ISSUE to be revisited in Congress this year is effort to overturn Supreme Court's Grove City College decision. Court held that, in areas where discrimination has been found, cutoff of federal funds must be limited to specific program involved, cannot be extended to entire school. Bill pending in Senate with administration backing would reverse Court, deny funds to school where single program is

discriminatory. But House bill, opposed by business, would use issue as basis for extending federal civil rights demands in manner that could, for example, impose heavy new compliance demands on grocery stores that accepted food stamps or drugstores that filled Medicare prescriptions.

- ▶ HOSPITAL COSTS CONTINUE TO MODERATE in face of widespread demands for action to ease medical inflation. Total expenses, staffing levels, average patient stay-all are down. Alex McMahon, president of American Hospital Association, says hospitals are finding ways to provide services more economically, "especially when viewed on a cost-percase basis."
- MAJOR CHALLENGES ARE STILL AHEAD for new Senate Majority Leader Bob Dole. His top priorities include retaining Republican Senate majority in 1986 congressional elections, a goal that could bring him into conflict with White House not too far into his term in powerful new position. Some senators who will run next year are already concerned that budget cutbacks proposed by President Reagan could alienate blocs of supporters. GOP is especially concerned because it will have to defend 22 seats next year, while only 12 seats now held by Democrats will be contested. Republican Senate majority was cut by two seats, to 53-47, in 1984 election, despite Reagan landslide, Dole will be busy over next two years serving as intermediary between GOP senators, White House. His job: Keep both happy.
- business people wanting Details of new federal budget can order own copies. Basic volume is <u>Budget of U.S.</u> <u>Government</u>, FY 1986 (#S/N 041-001-00282-1), available at \$13 per copy from Superintendent of Documents, U.S. <u>Government Printing Office</u>, Washington, D.C., 20402.

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#### **Attack on Access Fees**

The Federal Communications Commission has one more month before it must report back to the House Small Business Committee on long-distance access fees it will allow phone companies to charge small firms.

Last December, after a sixmonth investigation, a committee task force found that small businesses are facing harsh new economic pressures as a result of the fees. The task force said the agency installed the fees without fully analyzing their impact on small firms.

"Small businesses with more than one [phone] line have really taken it on the chin," says Rep. Ron Wyden (D-Ore.), who chaired the task force. "They have had to pay the access charge of up to \$6 a line each month. In those states where local rate hikes were approved, they had to begin paying those as well. And because many of them use mainly local intrastate long-distance service, they gained little from the interstate long-distance rate reductions."

If the FCC cannot justify the current access charge plan or formulate an acceptable revision, the task force is requesting that the agency then present Congress with a plan that allocates costs fairly. In doing so, however, the plan must not raise large users' costs so much that it encourages them to set up their own phone networks.

Among the task force's specific recommendations:

 Long-distance and local phone companies should work with business groups and regulators to develop a simplified monthly phone bill.

 Phone firms should provide to small businesses, on request, an annual phone statement that simply and specifically lists all the services for which they are being charged.

#### The Business Plan Gap

A recent study made by Safeguard Business Systems with the University of Texas Institute for Constructive Capitalism finds that although owners and managers believe a business plan is important to a company's success, most small firms do not even have one.



Monthly charges per phone line sting many small firms. This one pays for nine lines.

The study concludes that this gap may exist because owners and managers simply do not know how to prepare and use a business plan.

In a 1983 survey by Safeguard, owners and managers ranked business planning No. 1 in importance on a list of 10 management areas. At the same time, they acknowledged their lack of management expertise.

Fewer than one third of the 805 firms sampled in the new survey said they had an established business plan. Of those firms with a plan, nearly 60 percent—generally product-oriented companies—said they put their goals and ideas into writing.

According to the recent survey, most business planning is done internally. When outside professionals are called upon to prepare all or part of the plan, accountants are chosen twice as frequently as other professionals. Lawyers are second, followed by business consultants.

Of those businesses with a plan, 44 percent use it to manage daily operations, 22 percent use it to obtain start-up capital, and 30 percent use it to get operating capital.

#### The Biggest Worries

A national survey by the Big Eight accounting firm of Price Waterhouse finds that the top concern of small business is payroll taxes.

Second on the list is the federal deficit.

Donald Rappaport, Price Waterhouse's national director of smaller business services, explains the concern with payroll taxes: "Business people apparently feel this part of our tax system has been growing more onerous without relief, because tax reductions have not touched this area."

As for small business' second priority, Rappaport says that the "federal deficit is associated with inflationary pressures and high interest rates which have had major impact on the small business community in the past decade."

The 874 respondents targeted product liability laws as a third major concern.

Most businesses surveyed were privately held companies in manufacturing and nonfinancial services, with sales under \$50 million and fewer than 100 employes.

#### Worth Noting

 Caldwell Consulting Associates of Richmond, Va., has produced a set of videotapes called "Principles of Contract Management." The program helps the uninitiated through proposal preparation, negotiation, change order documentation, contract administration and close-out.

It includes sections on bonds, insurance, claims and claim defense and termination. For information, write to Caldwell at P.O. Box 10141, Richmond, Va. 23240. Phone: (804) 740-2469.

• In 1984, for the third year, New York State's Marine Midland Bank made more loans to small firms under the Small Business Administration loan program than any other bank in the United States. Last year's tally shows that the bank made 266 SBA-guaranteed loans for a total of more than \$34 million, the highest total among banks and the second highest among all SBA lenders.

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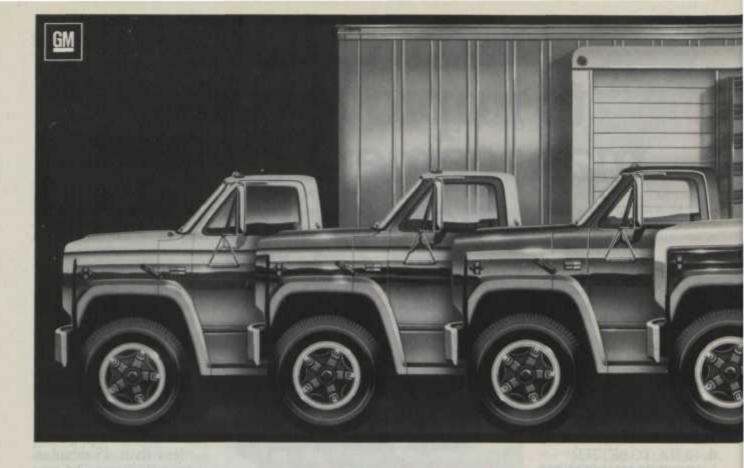
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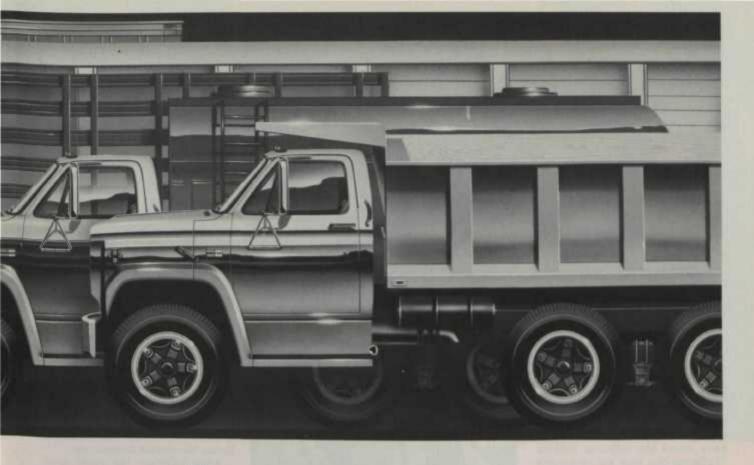
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GMC mediums and the DDA 8.2liter engine: the ones to beat. For economy and reliability, it's tough to beat the teamwork of GMC medium-duties and the Detroit Diesel 8.2-liter engine. It's the engine as versatile as the trucks it powers, with ranges of 145, 165, 205 and 230 hp available.

You'd expect that DDA's 8.2-liter would be economical, and it is. Trucks equipped with this engine are getting 90-98% better mpg than comparable gasoline-powered trucks in similar applications. But where the 8.2



## maximum

really comes through is against competitive diesel engines.

In recent fuel economy tests at Ohio's Transportation Research Center, the DDA 8.2-liter provided fuel economy superior to that of the competition in three weight classes, both domestic and import. But there's more – now the 8.2-liter

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too. E-Z Spec trucks are pre-engineered for specific vocational applications and are usually in dealer stock or available from GMC fast delivery factory pool.

For a medium that's right for your kind of duty, report to your GMC truck dealer for all the facts on

the GMC 5000, 6000 and 7000 Series trucks. Look for your dealer in the Yellow Pages, under "Trucks"

A truck you can work with.

Circle No. 80 on Reader Service Card.

#### "Surprisingly Low" Inflation Ahead?

How fast can the economy grow this year without setting off higher inflation? The answer to that question is of interest not only to business, but also to the Federal Open Market Committee's 12 voting members, who set Federal Reserve System policies.

A lower inflation rate means that the Federal Reserve can add more money to the economy. That, in turn, raises the potential rate of real economic growth. Besides creating more jobs, faster growth lowers the level of federal deficits.

One FOMC member, Karen Horn, president of the Cleveland Federal Reserve Bank, says that a combination of factors-past money policies, weak oil prices, a strong dollar and "good luck" have eased the inflation outlook. "Inflation this year will be surprisingly low," she says.

Last year, most FOMC members said they expected the implicit price deflator, which is the broadest measure of inflation, to rise 51/4 to 51/2 percent in 1985, with the economy growing between 3 and

31/2 percent.

Federal Reserve Board Governor Lyle Gramley now says that "with a little bit of luck," inflation will be lower this year than last, when the implicit price deflator rose 31/2 percent.

Says Gramley: "I see reasons to be optimistic about our nation's potential for sustaining economic expansion over

a prolonged period."

With lower inflation in the offing, FOMC members are hinting that economic growth may be higher this year than they expected. Martha Seger, a Federal Reserve Board member and the FOMC's newest member, says the economy "will probably grow closer to 5 percent than 4 percent" in 1985.

Last December, 60 percent of the Monetary Policy Forum's members-a group of 26 leading corporate, academic, government and labor economistssaid that a recession was possible within the year. Now, only 40 percent say a recession is possible within the next 12 months.

#### Kaufman's Warning

Storm clouds are building beyond the horizon, though, warns Henry Kaufman, executive director of Salomon



The Federal Reserve's Lyle Gramley sees low inflation, prolonged growth ahead.

Brothers, a New York investment banking firm. He says that the debt held by businesses, households and government grew 14 percent last year, nearly twice the average rate of growth during the 1960s.

Kaufman says that businesses' shortterm borrowing during the first two years of the current expansion accounted for 62 percent of their external financing. During a comparable period in the 1970s, that figure was just 35 percent. He says that the deterioration of the ratio of liquid assets to short-term market debt poses a threat to corporations' balance sheets in the event of a sudden economic downturn.

By abandoning long-term bond markets as a source of funds and using short-term debt to finance growth, Kaufman says, companies are assuming greater risks. Compounding the problem, he says, is the use of shortterm debt with floating interest rates that are subject to higher carrying costs as interest rates rise.

Kaufman points out that the equity base of U.S. corporations actually declined in 1984, after growing by a record amount in 1983.

The story is much the same with government and households. The ratio of consumer installment debt to income "will probably reach a record high in 1985," he says, and government borrowing in the last five years grew at more than three times the rate of a decade ago.

"The rapid growth of debt is one of the most pressing problems facing the United States today,' Kaufman says, because of the potential threat it poses to financial solvency if the economy goes bad.

#### A Retail Slowdown?

Retail sales are in for a period of "unexciting growth" during the rest of the decade, according to an extensive study for the National Retail Merchants Association.

After inflation, the study says, retail sales will grow 2.3 percent annually. Three reasons for the sluggish growth: an aging population, shifting shopping habits and changes in consumers' lifestyles.

The baby boomers will be between 28 and 43 in 1990, the report says, and older parents will have fewer children. Senior citizens will

live longer.

Electronics will run against the tide, the report says, with sales growing an eye-popping 14 percent annually. Some of these gains, it cautions, will come from computers and other electronic gadgetry built into big ticket items like automobiles.

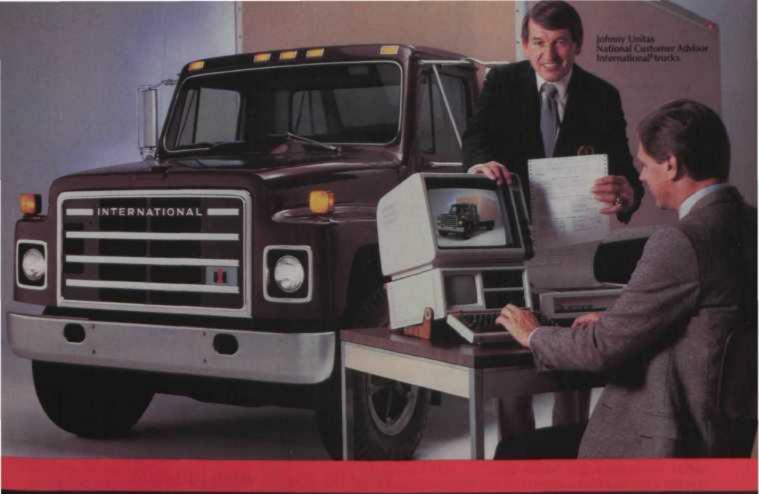
Other categories showing above-average growth will include optical and

sporting goods and toys.

Merchandisers selling building materials, tools, lawn and garden supplies and recreational services can expect close to average growth, but convenience foods and apparel face a dismal future, according to the report.

Variety stores, fuel and ice dealers will actually lose sales over the next six

Mail order sales will grow nearly three times as fast as storefront retailers' sales; direct in-home selling will show a drop in sales. The biggest growth in "mail order" selling, the report's authors say, will actually come from telephone shopping and computerbased selling. It says the latter way of selling holds even greater promise for the 1990s.



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Barter wizard Moreton Binn, whose deals topped \$500 million in value last year, brings a barter message to Harvard University.

A TELEVISION station wanted a new antenna that cost \$500,000, but it neither had the cash to spare nor wanted to pay a high interest rate to borrow the money. So it called Attwood Richards, Inc., the country's largest barter firm.

Attwood Richards bought the antenna and turned it over to the station in exchange for \$1 million in unsold television advertising time. It then swapped the time to a cash-short manufacturer for \$1.25 million worth of surplus digital clock radios.

It traded the radios to a hotel chain at retail value for \$2.5 million worth of rooms, food and beverages that the chain anticipated to be excess capacity.

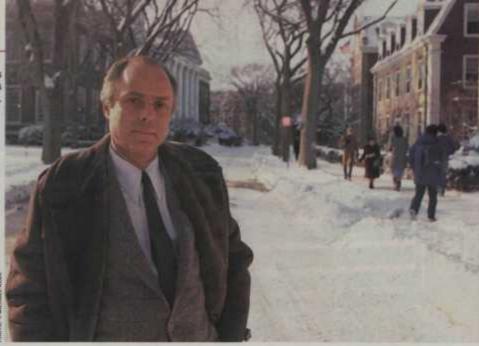
Then Attwood Richards bartered the hotel accommodations to a soap company, which needed the rooms and food for its traveling sales force. Attwood Richards got \$500,000 in cash and \$2 million worth of slow-moving, high-fashion deodorants. The barter firm kept the deodorant for its efforts.

In a strictly cash economy, the station would still be left with a glut of air time and no new antenna. The manufacturer would have a warehouse full of radios and no new advertising campaign. The hotel chain would have to spend cash for radios in its rooms. And the soap company would have to lay out \$2.5 million to shelter and feed its traveling salespeople.

What Attwood Richards did is an example of old-fashioned barter adapted to modern business. Barter is growing phenomenally in the American economy. It is booming faster than statisticians can count. In fact, says barter expert Leo Welt, measuring the volume is impossible because companies rarely disclose publicly the amount of their bartering activity.

More than 500 local barter exchanges have sprung up in the past decade, involving tens of thousands of small and medium-sized businesses. Large companies, particularly those trading extensively abroad, are bartering increasingly. Many have created their own barter subsidiaries.

The barter phenomenon is driven by the high cost of money. Barter gathered steam during the recent recession, when businesses were forced to cast about for new methods of moving products and services. It became easier to barter because of the spread of computerized transactions in which "trade credits" moved like cash. By the end of the recession, barter had become for many firms a marketing device easily



### **Barter Boom**

What do you do when you want to buy or sell, but cash is scarce? Many companies—and countries—are using barter to move goods and services.

By Henry Eason

adaptable to a booming U.S. economy.

Barter offers real opportunities for small businesses and individual proprietors. Restaurateurs can swap meals for advertising, printing, cleaning services and flowers. Floral shops can barter flowers for meals, advertising, printing and cleaning services. And so on.

In Austin, Tex., a restaurant owner got repair work done on vans he uses for catering, a roll of carpet and pest control services—all by providing meals to Barter Exchange, Inc., clients in central Texas. BEI President Matthew O'Hayer links thousands of small firms together with a computer network.

O'Hayer says electronics has catapulted barter into the modern age and given it the same sophistication as credit card operations. All BEI's transactions are computerized on what the firm calls BarterLine.

The Texas firm plans to push out nationally and internationally with BarterLine. After only three years of operation O'Hayer says he already has "several thousand clients" throughout the country.

"One of the main reasons the barter system died in the first place was because of the valuation problem," says O'Hayer. "With our network, all clients are assured of receiving full dollar value for goods and services they provide. Computerized barter is the ultimate in electronic banking."

"Barter is as expansive and exciting and rewarding as your own creativity," says Moreton Binn, board chairman of New York-based Attwood Richards, which managed transactions last year valued at more than \$500 million.

"Like Pavlovian dogs," says Binn, "we're conditioned in this economy to use a form of payment called cash. It's not an end product. You can't eat cash or wear it. Often, you can get the same thing through barter."

Binn, who recently lectured members of the Young Presidents Organization at Harvard Business School, says barter is "another marketing strategy." Most companies, he says, have no workable contingency plan when they can-



not move inventory. Frequently, the answer is to trade that inventory for assets a company would normally pay cash to get.

For example, a company making golf clubs and tennis rackets turned over to Binn \$4 million worth of sporting goods with the autographs of sports pros whose careers had dived. The same company wanted a major media campaign to sell new products.

Like other Attwood Richards clients, the sporting goods company signed a multiyear agreement to accept trade credits in exchange for the inventory it turned over to Binn. Working with the company's advertising agency and drawing from the resources on what it calls its "buffet table," Attwood Rich-

ards produced an imaginative national ad campaign-all paid for with trade credits.

It placed two-page color ads in 20 mass market magazines that are Attwood Richards clients, From a printing company on its list it produced cardboard displays promoting a contest offering six Lotus sports cars (the James Bond model), color televisions, luggage and dozens of other items on the Attwood Richards buffet table. The displays were placed in sporting goods shops and country clubs. Finally, the company's sales force was prepped for the campaign at a Miami Beach, Fla., hotel, another Binn client.

Less visible Attwood Richards deals-but bigger in dollar volume-

include swapping thousands of tons of steel, rubber, chemicals and other commodities around the globe. Most of the firm's clients-like those of most bartering companies-insist that their deals be kept secret.

'A lot of companies use

barter as a competitive edge. They don't like the competition to know what went into a deal," says Binn. Attwood Richards

clients are known to include Goodyear Tire & Rubber Company, Amoco Chemical Company, major steelmakers, hotel chains, consumer appliance manufacturers and dozens of

large foreign corporatown from Across

Washington companies are warming to in-kind trade, says Barry Constantinides.

Linking a limousine service with services of hundreds of other New York firms, Lois Dale shows them how to profit more from barter.

Binn's posh Park Avenue offices is another barter phenomenon. In cramped quarters facing a grocery store, Lois Dale's Barter Advantage, Inc., is having the kind of growing pains that make Dale smile. She operates one of the 500 community barter exchanges that cater to small businesses.

Dale is having to bring in computers to keep up with the bustling activity generated by her approximately 1,000 clients. Last year she opened a Los Angeles office, and she says she has just

begun to stretch.

When she owned a carpet cleaning business several years ago, she joined a community barter exchange and caught the bug. In 1981, she hung out her own barter shingle. Last year Dale won the New York Chamber of Commerce and Industry Small Business Innovation Award.

Her clients include restaurants, airlines, caterers, hotels, printers, medical professionals, accountants, retailers, advertising agencies, videocassette rental firms, tourist agencies, database designers, custom-house brokers, dry cleaners and executive headhunters.

Each has a plastic trade credit card to present to other clients in exchange for goods and services. Credits "spent" and "earned" are calculated and reflected in monthly statements. Barter Advantage brokers work with clients to help match them with providers of goods and services. Clients can learn about new merchandise and services from a hot-line that Barter Advantage maintains as well as from occasional fairs and a regular newsletter. Last year Barter Advantage's trade volume reached the equivalent of \$3.5 million.

'We haven't even touched the tip of the iceberg," says Dale. "I ask some business people about barter, and they think I'm saying 'bartending.' They don't know what it is."

BARTER WORKS BEST, says Dale, for businesses and professionals that have excess inventory or capacity. "They can buy retail with their own wholesale costs," she says. And if their profit margins on the bartered goods or services are high-30 percent or more-it is very much to their advantage to barter, she advises. "If your profit margin is 8 percent, barter probably isn't for you."

Barter also generates spin-off trade, Dale and others say, by creating business relationships that would otherwise not exist.

Ronald Finder is a dentist in the

19



Washington suburb of Silver Spring, Md. He joined Barter Systems, Inc., a local barter exchange, two years ago. The trade credits he has accumulated are just the cream benefit of his membership. He has profited most from the referrals that barter patients have pro-

"Professionals today have to get into some marketing," says Finder. "Barter has brought in people who would not normally have come in. I haven't even spent any of my credits yet." He buys ads in Barter Systems' directory and likes the results.

For Washingtonian Joan Hendrickson, barter came naturally, even before she joined Barter Systems. She was working for a Georgetown-based dating service several years ago when it went bankrupt. Hendrickson bought the client list and started her now-successful Georgetown Connection, a videotape dating service where clients go to observe each other's taped self-descriptions for a \$400 fee.

Hendrickson traded dating service memberships to the lawyers, accountants and business consultants she needed to start her company. When Barter Systems approached her about joining its club in 1980, she readily agreed. She has helped match-make a number of fellow barter clients and, in exchange, has gotten cleaning services and tropical plants to decorate her office. "You feel you're getting something for nothing," says Hendrickson.

BARTER SYSTEMS President Barry Constantinides has about 950 clients in the Washington area and also trades regularly on their behalf with exchanges in 70 other cities, including Dale's. Like Dale and most other exchange operators, Constantinides charges an initiation fee and makes commissions on transactions. "The system works only if you make a little bit off everybody without getting greedy," says Constantinides. His business has grown 392 percent in five years.

Barter, he says, should be regarded as a supplemental means of doing business. Most firms, he advises, should not try to barter for more than 15 percent of their gross profit.

"Barter business is easy to get," he says, "unlike cash. But barter is more difficult to spend. You must spend it with other barter clients."

For that reason, barter spending sometimes brings in goods that are not exactly what the business wants. Sometimes there is a wait. Constantinides, Dale and Binn have to work to locate what their clients need. A force of "trade brokers," employes of an ex-



change, works the phone lines all day matching items in the exchange inventory with customers' demands.

To help businesses "trade down" their earned credits, trade brokers like Mary Jane Horner phone members and alert them to available merchandise and services. In January, Horner spent hours calling Washington area merchants to tell them that a tuxedo rental client had excess formal wear for those planning to attend presidential inaugural events.

Before the evolution of currency several thousand years ago, barter was the sole basis for marketplace exchanges. Prices were established by haggling. In many cultures, tribal leaders presided over the collection of goods people wanted to barter. The most famous instance of barter was Dutchman Peter

Joan Hendrickson's Georgetown dating service trades matchmaking for plants, cleaning and legal advice.

Minuit's successful offer of cloth and trinkets to Indians in exchange for a deed to Manhattan Island in 1626.

The United States is a virtual newcomer in packaging barter and in mixing barter with cash deal-making. Barter is becoming a staple of the cash-poor less-developed nations and of countries in the Communist bloc. It has long been an instrument of trade used by European nations.

Globally, the value of bartered trade is estimated at \$160 billion, or 8 percent of total merchandise exports, according to the international organization known as the General Agreement on Tariffs

and Trade.

Firms like General Electric Trading

#### Picking a Barter Firm

The International Reciprocal Trade Association in Washington, a group representing 100 barter exchanges, offers this advice if you are considering barter as a method of marketing unsold inventory or extra service time:

- · Prepare a list of your wants and check whether the barter company can obtain or provide any of them.
- · Ask for a referral list of clients and check with them to see if they are satisfied.
- · Check the barter prices to see if products and services are priced fairly and competitively.
- · Check on the geographic coverage of the company's client base, and on the proximity of supplies of

goods and services that you want.

- · Find out if the company provides consulting services in addition to barter brokerage, exchange and other management services.
- · Inquire as to how many clients are currently trading and how many are on standby or reserve status.
- · Compare the barter programs, contracts, cost and services of other barter companies in order to determine the best deal for you.
- · Remember that barter sales are taxable income. Contact the Internal Revenue Service for details.
- · Make the usual business reference checks-Better Business Bureau, chamber of commerce-on the barter company.

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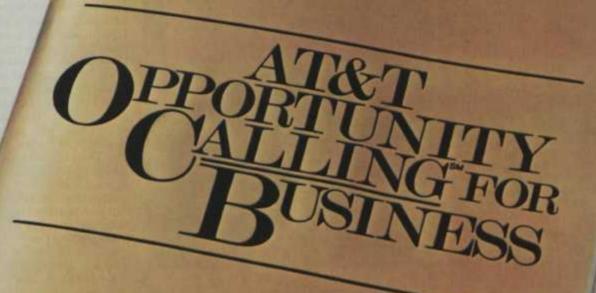
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You do nothing special.
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Douglas Aircraft Company, a pioneer in quasi-barter, sells planes like the new MD-80 to Yugoslavia for cash. Then the company helps promote the sale of that country's hams, other goods and tourism.

Company, a GE subsidiary, are fast moving into the breach. Last year, about \$1.4 billion of GE's \$3 billion export sales of aircraft engines, power generating equipment, medical high technology, engineered plastics and general electronics were bartered.

GE's William Evonsky, manager of advanced trade development, says barter salvaged a deal the company made to build turbine generators to develop nuclear energy in Romania. When that Communist nation got into a cash squeeze, GE agreed to accept half of the \$150 million price for two turbines in Romanian industrial goods, like railroad cars and ship containers. Success with that venture helped GE beat out other competition for a second package of additional nuclear power equipment worth \$165 million.

"That project really got us into the barter business," says Evonsky. "Since then, we've had success in Sweden, Spain, Turkey, South Korea and Aus-



tralia. Total GE export business as the result of barter is about \$3.5 billion now."

Meanwhile, Douglas Aircraft Company continues to profit from ground-breaking in quasi-barter trade, called countertrade or offsets. These barter-like but more complicated deals often do not entail straight swaps. Douglas agreed, for example, to promote Yugo-slavian wares and tourism in exchange for cash purchases of its DC-9, DC-10 and new MD-80 commercial airliners.

Says spokesperson Elaine Bendel: "Yugoslavia needs hard currency. We help them get it. A lot of people don't understand this, but there is more and more interdependence around the world with our trading partners. Ours is a modern, up-to-date approach. It assists us in marketing."

The Yugoslavian Trading Company has an office in Douglas' Los Angeles area plant, where its sales force markets hams, tourism, wine, power transmission lines, drill bits and other products and services. Yugoslavia's relationship with Douglas goes back to the early 1970s and has proven "synergistic," says Bendel. Douglas, she adds, "originated this concept" of trade mixing.

American aircraft are in demand worldwide, despite the strength of the dollar. Boeing Commercial Airplane Company last year sold Saudi Arabia 10 late model 747s in a deal

that involved a bank's paying Boeing after agreeing to accept crude oil with a value estimated at \$1 billion.

Pompiliu Verzariu, a countertrade and barter expert at the Commerce Department's International Trade Administration, says, "The pressures are definitely increasing for countertrade, as less developed countries try to find a remedy for credit constraints."

Verzariu notes that the United States government generally opposes countertrade because, the government says, it distorts world trade, creates risks for American exporters and adds to the cost of doing business by involving too many middlemen.

Countertrade results from the great number of debt-ridden nations who must continue to produce and trade in spite of their lack of ready currency. If they cannot export, many factories will shut down, increasing unemployment and contributing to political instability.

ACCORDING TO THE Bank for International Settlements, bank lending to developing countries increased only \$4.7 billion in the first half of 1983, compared with a \$17 billion increase for the same period in 1982. Third World debt is over \$800 billion.

"It seems there is nothing on the horizon that will change these nations' surplus goods and credit standing in the short run," Verzariu says. "Therefore, our companies must familiarize themselves with the trading climate."

Says trade consultant Leo Welt, the Washington-based author of the book Trade Without Money: "Countertrade is not a preferred way to conduct business, but it is a way of doing business when everything else breaks down."

Andrea Mackiewicz agrees. She is the editor of Countertrade Outlook, a

#### Is Barter for You?

Barter advocates say there are strong economic advantages to inkind trading for certain kinds of business operations. Here are the main points.

If you have excess capacity or inventory, you can barter some of it for services and goods you would normally pay cash to get.

 Since you will likely get retail credit for what you barter, you will pay only your wholesale cost in exchange for full retail value of the products and services you receive.

 You can expand your clientele beyond your cash-paying customers.
 Barter brings in additional business.
 You get paid in kind, instead of in cash. It is still business.

- Some of this new business may at some point be converted into cash business.
- Referrals gained through barter become a new marketing tool for cash business. You gain from an intangible web of relationships with other barter firms.
- Barter is especially good for seasonal businesses, like resorts, which can exchange services in their off-season for benefits usable yearround.
- Only businesses that operate on a healthy profit margin can barter with clear profits in sight. Though done by some firms with tight profit margins, bartering is tricky and requires close management.



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#### PCs are serious business

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out a plethora of non-compatible vendors and products. Simply put, PC EXPO is the volume market place for PCs and compatibles. It's my kind of show."

The Pro Show

XP□

New York Coliseum June 17-19, 1985

new weekly newsletter that monitors international barter and countertrade. "If U.S. companies want to increase or even maintain sales in Latin America and Eastern Europe," she says, "they are going to have to take products in kind because countries there don't have currency."

American farmers have also lost markets both because of the strength of the dollar, which makes grain and feed more costly, and because so many of their longtime customers are debt-encumbered. Agribusiness has traditionally led American exports.

Rep. Bryan Dorgan (D-N.D.) says the United States should barter more foodstuffs for products we need. In particular, he contends that cash-strapped Third World nations that have minerals and metals vital to our military stockpile should be paid with surplus food.

"Acquiring critical minerals for the national defense stockpile and oil for the strategic petroleum reserve would reduce farm program costs in significant ways," Dorgan says. "Zaire has cobalt and needs wheat. Zambia has copper and needs corn. Guinea has bauxite and needs nonfat dry milk. Barter with these developing countries would generate trade that would otherwise not occur."

Barter abroad and domestically is an emerging industry. As such, it is experiencing growing pains. Some of them are unpleasant for those involved. It is still primarily unregulated, though recently enacted law has given the Internal Revenue Service new procedures to govern the taxation of barter.

The International Reciprocal Trade Association, made up of 100 domestic barter exchanges, has been in the fore-front of helping the industry mature into more stable business practices. IRTA worked with Dorgan and others to codify a system of reporting barter transactions as taxable income.

Under the law, exchanges keep records of each deal and send annual statements to the IRS and to their members. Barter income becomes taxable during the year a business earns trade credits denominated in dollars.

IRTA is also concerned about fly-bynight operations that have cheated businesses out of thousands of dollars. Such frauds give legitimate enterprises a bad name and threaten to stunt the natural growth of barter in the economy, says IRTA Deputy Director Joseph Weiss.

Weiss says there are no effective laws now that prevent unscrupulous barter exchanges from siphoning members' assets, then folding their operations and skipping town.

Specifically, the members of IRTA-

people like Dale and Constantinides—want—the Commerce Department to give IRTA the authority to license firms and police behavior.

Says Rep. Dorgan: "As in a lot of fledging industries, there are some positive businesses and some that are giving people a lot of trouble." He says more study is needed before the government acts. "If it is demonstrated that there is a desperate need for federal action, then we'll be pre-

pared to act. I don't see that now."

BARTER IS COMING out of the shadows. It is shouldering its way into normal business practices and showing merchants, industrialists, farmers and professional people an imaginative way of marketing and accounting. And still, for all it promises, it is accompanied by certain risks, all agree.

Until barter is better understood, there may be value in the advice of Edward Hartnett, executive vice presi-



Dutchman Peter Minuit bought Manhattan from the Indians for cloth and trinkets in 1626.

dent of Media General Broadcast Servicess, a barter exchange in Memphis that specializes in the swapping of advertising for goods.

"The most important thing people should keep in mind in bartering is that everything should be spelled out," he says. "Take the time to check references. Once you have checked out a company, check it out again."



To order reprints of this article, see page 97.

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#### **A Pitfall in Pension Plans**

By Gerald W. Padwe, C.P.A.

Suppose you have a pension plan for your employes, and one of them dies. In accordance with your employe's clearly expressed wishes, you pay the death benefits to his son. But then the employe's widow claims that she, too, is entitled to those benefits. Given that the employe has designated another beneficiary, in writing, the widow has no basis for her claim—or does she?

In fact, she does, thanks to the Retirement Equity Act of 1984. Under that law, an employer maintaining a pension, profit-sharing or stock bonus plan risks having to pay double benefits—to a designated beneficiary and to a surviving spouse—unless the plan is amended to meet the death benefit rules added by the 1984 law.

The act has been criticized as poorly written. It requires any death benefits to be paid to the deceased participant's surviving spouse, unless the spouse has previously waived the benefits. The waiver must be in writing and witnessed by a plan representative or a notary public. These new death benefit rules apply if a deceased plan participant had as little as one hour of service with the employer after Aug. 23, 1984, the date of the act.

If a plan pays a death benefit to the deceased participant's designated beneficiary (for example, a child or parent) and the surviving spouse also claims the death benefit under the new law, the contributing employer could be required to pay twice.

Can employers minimize this risk by ignoring a beneficiary designation and paying death benefits only to the surviving spouse? Perhaps, but there appears to be nothing in the law that invalidates the deceased participant's earlier designation in favor of the alternative beneficiary. Thus, employers could face conflicting claims whomever they chose to pay.

Unfortunately, some employers may be called on to make decisions before the Internal Revenue Service provides firm guidance through regulations.

#### **Report Those Payments**

Over the years, the IRS has greatly improved its ability to match taxpayers' Forms 1040 with documents reporting dividends and interest paid them. These improvements allow the IRS to trace



Falling prices have disguised a tax increase on fuel for diesel cars.

virtually all dividends and interest paid from the Form 1099 filed by the payor to the individuals' tax returns.

Confident that it has gotten a grip on an area where, in the past, enforcement was difficult, the IRS has recently revised its Internal Revenue Manual. It now requires a negligence penalty on any tax assessed from nonreporting of dividend or interest income, when a Form 1099 information report was filed by the payor. Since the negligence penalty is 5 percent, and it is not deductible, it amounts to a substantial additional interest charge.

The IRS believes a negligence penalty is appropriate in these circumstances, since the taxpayer will have received the income, a Form 1099 will have been sent reminding him or her to report the income, and all taxpayers must report all income on their returns.

Such penalties are presumptive only; that is, one will not be imposed if the taxpayer can rebut the presumption. However, even though most penalties will be abated for "reasonable cause," to overturn this presumption requires "clear and convincing evidence" that no negligence occurred.

Taxpayers will find, starting with 1984 income, that the IRS' computergenerated notices suggesting the omission of dividend or interest income, as determined by the matching program, will automatically have the negligence penalty added to the proposed bill.

#### **Diesel Car Credit**

Do you own a diesel-powered automobile, either personally or in your business, purchased in 1979 or later? Uncle Sam may have a few dollars for you.

One of the 1984 tax act's revenue enhancements was an increase in the excise tax on commercial diesel fuel used to power motor vehicles, from 9 cents to 15 cents a gallon. The tax increase has gotten little notice among users, because the decrease in fuel prices over the past few months has meant that many motorists are paying virtually the same price for diesel fuel today (after the 6-cent increase) as they did before the tax went into effect.

However, Congress' intent was to impose the increase on diesel-powered heavy trucks rather than cars, so a one-time credit is being allowed for owners of diesel-equipped vehicles weighing 5 tons or less—a limit that includes cars, vans and some light trucks.

The credit, on a sliding scale, is available only to holders of 1979 and later model diesel vehicles. For automobiles, the credit amount is as follows:

Model Year	Credit
1979	\$17
1980	\$34
1981	\$51
1982	\$68
1983	\$85
1984	\$102

The sliding scale is calculated by multiplying the number of gallons of diesel fuel to be used in the estimated remaining useful life of the auto by the 6-cent increase. The credit (at 1984 rates) will also be available to original purchasers of 1985 through 1988 model diesels.

Calendar-year taxpayers may claim the credit by attaching Form 4136 to Form 1040.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.



## NEWS RELEASE

**3**M

NEW 3M 537 COPIER COMBINES EXCLUSIVE PUSHBUTTON COLOR WITH AUTOMATIC ZOOM

ST. PAUL, MINN.--3M has just caught its major competitors off guard with the new 3M 537 copier.

This compact, attractively priced machine offers two features that haven't been available in the desktop category until now: (1) Selection of a second color without changing toner cartridges, and (2) automatic zoom during enlargement and reduction when the optional semiautomatic document feed is used.

Pushbutton selection of red, blue, or green in addition to the usual black makes it easy to highlight paragraphs or headings within a document. The 537 lets any office worker create multi-color charts and graphs in quantity, and it can be used to accent logos or letterheads. Because the 3M 537 copier holds two toner cartridges, there's no need to physically change cartridges except when a different second color is needed or high-impact, four-color copies are desired.

The 537's automatic zoom feature (included with the optional document feed) allows users to reduce or enlarge from different-size originals onto letter-size paper without guesswork or wasted copies. Every 537 copier also comes with preset values for letter-, statement-, computer printout-, and ledger-size sheets as well as a wide-range manual zoom control for 89 different steps of reduction and enlargement.

3M's new 537 copier is just one of many advanced copiers from a company that has one of America's largest and most experienced sales and service organizations. For a demo, check the Yellow Pages for the name of your nearest 3M dealer. Or call 1-800-328-1684 toll-free. (In Minnesota, 1-800-792-1072.)

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#### **Scuttling Software Pirates**

Piracy of business software for personal computers may be America's fastest growing indoor sport. It is definitely a participant sport. A recent study conducted by Future Computing, Inc., a Dallas industry analysis firm owned by McGraw-Hill, shows that there are as many bootleg copies of business software packages as copies sold legitimately.

The study indicates that if antipiracy techniques were improved, sales of the software—usually on 5¼-inch disks—would rise 25 percent. That would

represent \$800 million in added sales for the nation's software developers this year.

Those numbers have not escaped the attention of the developers, whose trade group, the Association of Data Processing Service Organizations, has organized a software protection committee to battle the electronic thieves.

The committee's chairman is Marv Goldschmitt, vice president of business development at Lotus Development Corporation, whose best-selling 1-2-3 and Symphony packages are among the treasures coveted by pirates. Goldschmitt says the industry plans to attack the problem on three fronts:

 Educating the public about intellectual property.

An advertising and public relations barrage pushing the theme "Thou shalt not dupe" is planned, to tell people that unlicensed copying is wrong. "We think people are essentially honest," Goldschmitt says.

· Improving technical protection.

The trade group is pushing a hardware device that would be attached to a personal computer and would require insertion of a hard-to-duplicate key, purchased with legitimate software, before the software could be used on it. The group hopes that the major software companies will agree on a standard approach and that devices from several companies will be on the market by the end of this year.

· Litigation and legislation.

The trade group is working with members of Congress to tighten copy-



Lotus Development Corporation's 1-2-3 program is a favorite prize for thieves, but software publishers are striking back.

right protection and has begun to carry out a commitment to sue corporate pirates on behalf of its members.

#### His Master's Voice

The science fiction world of computers that talk and listen will soon be here, predicts David Fradin, president of First Byte, Inc., of Long Beach, Calif.

In fact, Fradin's company already has a software product, Smoothtalker, that allows the operator of a Macintosh personal computer, manufactured by Apple Computer, Inc., to type text on the Mac and then have Smoothtalker read the text aloud.

First Byte sells the package for \$149.95 and plans to introduce this spring a similar product for the personal computer made by the International Business Machines Corporation. A French-language package and a package that has a feminine voice (which Fradin says is harder to synthesize than the current product's masculine voice) also are expected to be released this year.

Within the next couple of years, Fradin predicts, some personal computers will "listen" to their operators' oral instructions—something that could bolster sales to typing-wary executives.

#### Service for the Information Age

Do you ever wish you could sit at your desk and gain immediate access to a collection of information for a report or a business decision?

EIC/Intelligence, Inc., of New York provides that kind of service in seven fields, with plans to expand its offerings in areas of technology important to business.

"We are the eyes and ears of our clients," says James G. Kollegger, president and founder of the company, which offers information services about artificial intelligence, biotechnology, computer-assisted design and manufacturing, energy, the environment, robotics and telecommunications. EIC draws its information

from about 5,000 sources in more than 50 countries, including major newspapers and magazines as well as newsletters and patent registrations.

When he started the company in 1970, Kollegger was convinced that information in print too often becomes lost in the depths of a library or goes, unread, from an in-basket to a trash basket.

"You need not do it the old-fashioned way," Kollegger insists.

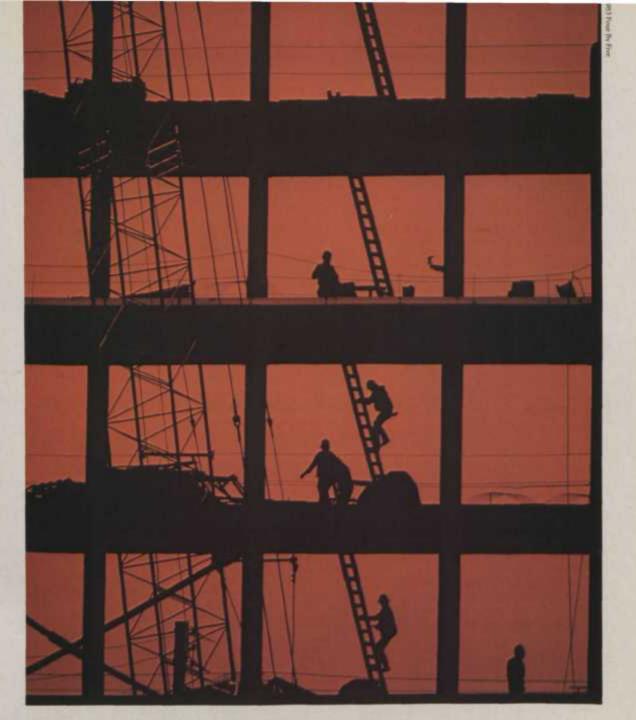
Because electronic information can be easier to cross-index and make instantly available, Kollegger devised a system of transmitting information from his own company's larger computer via telephone lines to a business person's desk-top machine, where the information can be read or printed out using a receiving unit much like a telephone with a video display, a personal computer or a terminal on a computer system.

Clients can scan news of developments in the area they follow—they will get summaries of important events—and search for specific information.

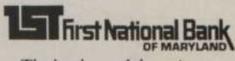
They can also use electronic mail to order the full texts of articles that are of interest to them and send such information to their own company's branch offices.

Kollegger says 1984 sales to a client list including major corporations and the Chinese government reached about \$5 million, and he projects 40 percent growth this year.

-Mike Lewis



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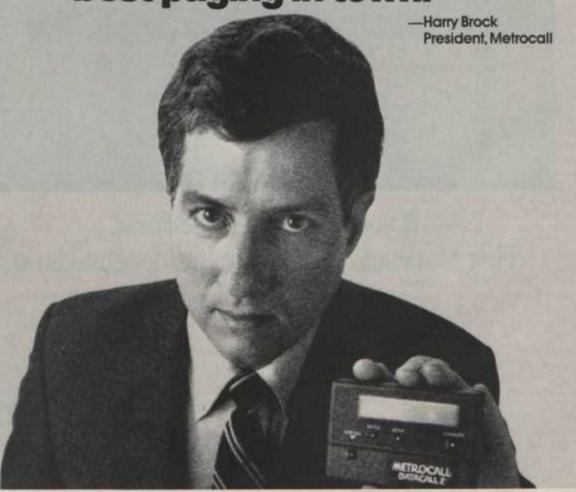
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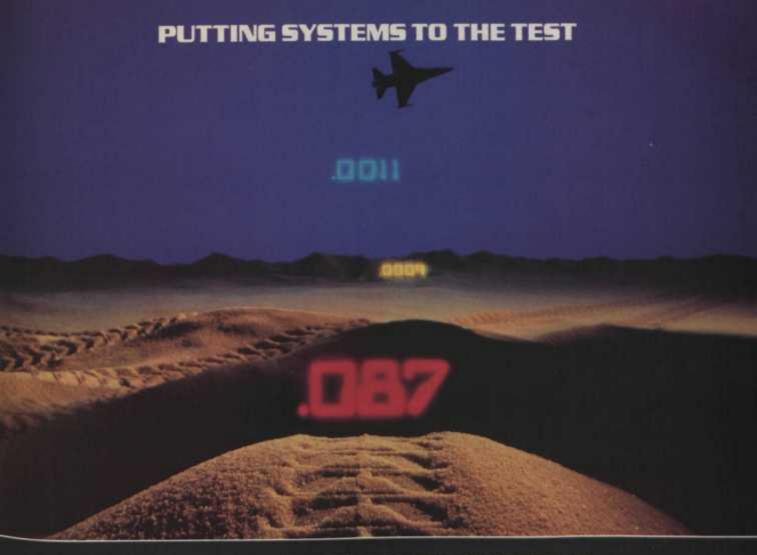
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## SPECIAL REPORT

**B**USINESS OWNERS who have switched from the tools of yester-day—typewriters and handheld calculators—to personal computers have improved productivity and saved their workers drudgery on the job.

Paper work that once took hours can be finished in minutes. Reports that once looked dull now are brightened with vivid computer-generated graph-

ics.

But most business problems have to be solved through interaction among several people, sometimes in different departments. That is where PCs alone cannot do the job. Their information is often behind the times, confined to a single user. And there is often a lot of duplicated work because one person may not know what another is doing.

For many companies, the solution to PC limitations is networking, a method of joining computers and such "peripherals" as printers. By enabling PCs to communicate with one another, share expensive peripherals and accomplish tasks that previously required more powerful, expensive computers, networks make small computers act more like big computers.

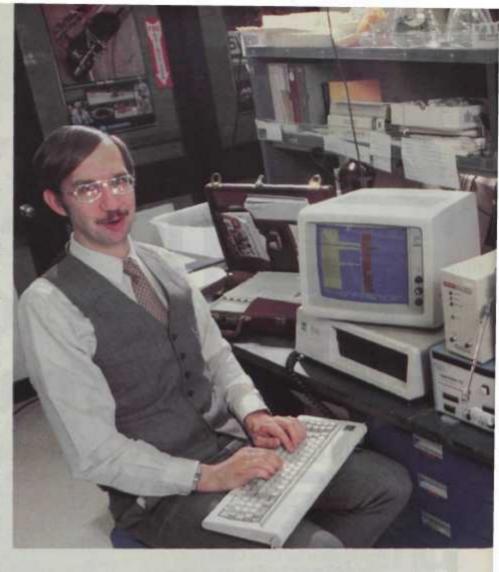
Most important, networks link people so they can share information and ideas to solve problems collectively. Network users can communicate directly with one another through their terminals. Memos, reports and complete files can be sent from work station to work station, eliminating the manual transfer of paper copies or fragile floppy disks.

By sharing the network's hard disk, network users gain many times the information-storage capacity of their PCs' floppy-disk-based systems.

Networks link PCs and peripherals to one another with wire or cable. Other network components include interface cards or boards and file servers. Interface cards plug directly into each computer on the network, providing the linking "intelligence." File servers are computers that manage the network. A server, essentially a computer with a hard disk, is a kind of traffic cop that handles the flow of electronic mail, assigns people working space on the disks and routes data from the PCs to the disks. Some suppliers of networks have a proprietary server, necessary for connecting six or more work stations.

Most networks are designed to link computers made by a limited number of

Gary Kaplan is a San Francisco freelance writer.



# Multiplying PCs' Power

By Gary Kaplan

computer manufacturers. Increasingly, however, networks can connect diverse blends of computer models and brands. Corvus Systems, of San Jose, Calif., for instance, offers Omninet, which is capable of connecting computers made by International Business Machines Corporation, Digital Equipment Corporation, Texas Instruments and other firms.

Although networking prices have come down in the last year, linking PCs is still not cheap. Prices range from \$500 to \$1,000 per computer connection, a networking industry term for the cost of hooking one computer into the network, including interface cards, cables, installation and training. Connecting 15 PCs thus costs \$7,500 to \$15,000. File

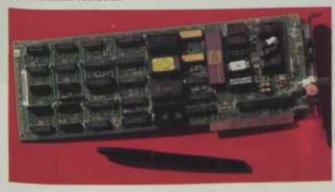
servers cost an additional \$600 to \$30,000, depending on the number of computers each manages.

Networking offers a number of benefits. It can prevent duplication of orders, or commitment of the same shipment to two different customers. It can avoid a promise to deliver an item that just went out of stock because it was taken by a different order. It can keep customers from exceeding their lines of credit by calling in orders to different people. With a networked database, all employes have access to the same upto-the-minute data. If one person makes a change, the new information becomes available to everyone on the network.

Another common application improves manager-secretary productivity



PHOTOS NOX SHOWED - PICTURE SHOUP



Jesse Caton, director of information services for ALZA Corporation, finds a local area network important for his company. The network interface card ties computers to ALZA's Nestar network.

in writing letters, plans and other docu-

Several managers compose initial drafts electronically. A secretary then proofreads, edits, formats and adds finishing touches to the final draft, using a word processing package.

Simultaneous use of the same information increases efficiency. If a business sets up a customer database, one person can use it to print a list of present customers, someone else to add new customers, yet another to mail correspondence and a fourth to generate reports about account activity.

This sharing of accurate information means that employes working independently are still pulling together.

N ETWORKS ALLOW more variety in printer options at a far cheaper cost, says DeLaine Good, spokesman for Corvus Systems. Without a network, each PC requires a separate printer, no matter how infrequently it is used.

"There are times when a letter-quality printer is required," Good says, "just as there are times for wide-column spreadsheet and draft-quality printers [for graphics]. To put all three printers on each computer, of course, is ridiculously expensive. But that's the only solution under a stand-alone setup. With a network, all three printers can be linked to all PCs, allowing inexpensive printer choices."

Another saving that networking provides, says Patty Burke, a spokeswoman for 3Com Corporation, of Mountain View, Calif., is in software. "Instead of each computer user having his or her own program for each task [word processing, spreadsheet analysis, database management]," she says, "networked" copies can be purchased.

"Programs written for networks include Multi-User dBASE II, LAN: Datastore and Q\*Net. These programs cost twice as much as stand-alone ver-

#### **Buildings With High-Rise IQs**

Structures where Americans work are becoming the newest draftees in the information army that is changing business practice in the United States.

"Intelligent" buildings with builtin microprocessors and network wiring have already begun sprouting up among their ignorant brethren in places like Chicago, Dallas, Denver, Hartford, Los Angeles and suburban Washington.

Although some of the new buildings are smarter than others, they are all designed to take advantage of microprocessors to regulate such things as heat, elevators and lights. Someone entering an office, for instance, may be "recognized" by a sensor that turns on the lights.

Developers of intelligent buildings, such as Honeywell, Inc. and the United Technologies Building Systems Company, say that the initial construction cost is only slightly higher than for untutored structures. Further, they say, operating costs bring a quick return of the ex-

tra investment and keep rents competitive with those for other buildings. Smart buildings' attributes are expected to be a particular asset in areas where commercial real estate is overbuilt.

Most of the buildings offer electronic services as accessible utilities, in a way reminiscent of plumbing or electricity. Wall sockets allow computers to be plugged into links to mainframe computers or other small computers, smoothing the way to greater use of local area networks.

sions, but can be used by five or more people"

Among the major computer manufacturers, IBM recently introduced IBM PC Network, capable of linking 72 IBM

PCs, PC XTs and PC ATs. The PC Network includes interface cards, translator units-functioning as the network's traffic copsand cable. IBM Product Center prices are \$695 per computer connection, \$595 for each translator unit.

IBM also announced the IBM PC Network SNA 3270 Emulation Program, which can be installed on PCs in the network to give them communications access to a large IBM host computer system. The Emulation Program is scheduled to be available in the first half of 1985. according to Rob Wilson of IBM's communication information department.

Apple Computer this spring will offer its own networking system, called a "department connection," linking up to 32 computers and peripherals. The connection is designed to solve problems of people working in small departmental units, says Apple spokesperson Kathleen Dixon.

Last June, the Oregon

Laura Drager and Chris Herndon supply

Legislative Information System, which analyzes state agencies' budget proposals to assist Oregon legislators, automated its offices in a big way. Typewriters were replaced with IBM and Sperry PCs, and the PCs were networked with a Corvus Omninet.

"If not for the network, our 26 PCs would have required a much greater printer outlay," says Chris Herndon, assistant director of the system. "Just as significant is the increased mass file storage provided by the network. We process a great deal of data that would have quite quickly overextended our PCs' storage capacity. With the network, our PCs become, in a sense, larger, more powerful computers.'

GREEING WITH that network assessment is Bristol-Myers' Roy Post. In October, 1983, Post directed a network installation by Nestar Systems of Palo Alto, Calif., at Bristol-Myers' Nijmegen, Holland, plant. The network is used as a support system to aid accounting, quality assurance, product planning, purchasing and receiving at the plant, which manufactures infant formula.

The network currently connects eight IBM PCs; by the end of this month, it will connect 12.

"We chose a network for three pri-mary reasons," Post says, "First, we wanted to avoid the costly data processing empire of programers and operators prevalent in a mainframe computer environment.

"We also wanted to avoid the cost of a mainframe and its correspondingly expensive computer room. Finally, we wanted flexible work stations that could use off-the-shelf packages for database applications."



Oregon legislators with information with the help of a Corvus network.

#### A Close Look at a Networking Effort

Back in the fall of 1982, Jesse Caton, director of information services at ALZA Corporation, a Palo Alto, Calif., pharmaceutical manufacturer, looked at the present and the future and saw big trouble in both.

ALZA's stock of personal computers was growing-and rapidly-and would continue to grow. While the PCs had clearly enhanced worker productivity-permitting quick, accurate production of reports and databases and analysis of laboratory information-their configuration had serious drawbacks. Their valuable information could not be readily shared, and each PC required a separate and expensive printer.

While Caton had no trouble recommending the purchase of a network to ALZA executives, he was some-

what frustrated because IBM did not offer a network for its PCs. (IBM's recently released PC Network now fills this void.)

"Waiting for IBM to deliver a network standard would have resulted in chaos," Caton explains. "In addition to the limits inherent in singleuser PCs, another insidious handicap would have developed: Our staff was adjusting to their PCs and would soon be reluctant to have 'their' PCs networked."

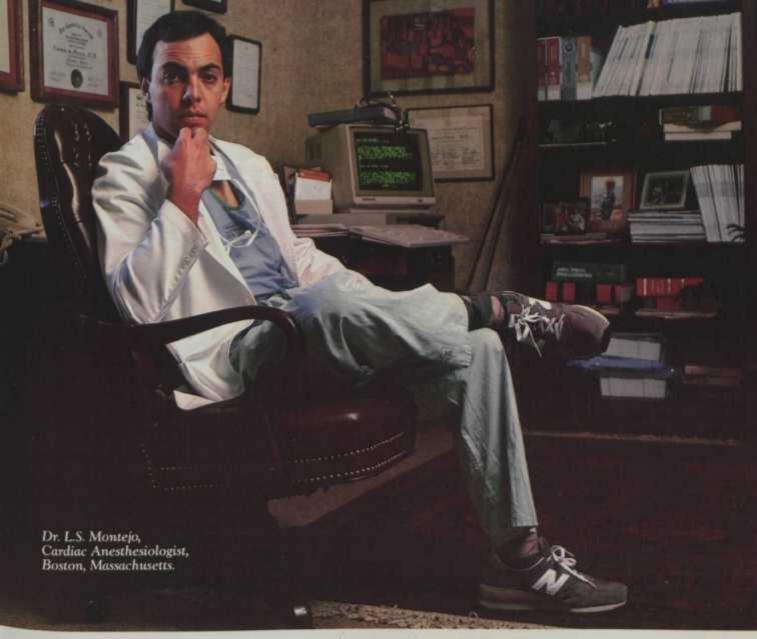
Caton eventually narrowed his networking options to 3Com Corporation and Nestar, before opting for the latter's PLAN 4000 network. "At the time, its storage capacity was 10 times greater than anything 3Com provided, " he says.

It cost ALZA \$42,000 to link its

first 15 PCs. Nearly \$28,000 went toward a file server. The actual connection charge was approximately \$900 per PC. Cabling, which was done by ALZA's building staff, made up the rest of the cost. (If cabling is done by an independent contractor, figure on a cost of 10 to 30 cents per foot.)

The network now connects 70 PCs and is used throughout the company's various departments-research and development, accounting, plant services and toxicology-in word processing, product scheduling and lab support activities.

"With the network enhancing the storage capabilities of our computers," Caton says, "each IBM PC is the equivalent of a much more powerful IBM PC XT."



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TI had other solutions to help Dr. Montejo keep his office operating smoothly, too: a desktop TI Professional Computer and a T1855 printer."TI runs software fast," he says, "and the TI screen has a lot better resolution than other monitors."

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## SPECIAL REPORT

#### **No Software** "Off the Rack," Please

By Karen Carper

S MALL BUSINESSES want customized computer solutions to the specific needs of their industries. They also want computer systems that can grow as they grow. And they are coming to realize that service and support are as important as the hardware itself.

Those are the three major findings from a survey of trends in the small

business computer market.

Small business spending on computers from mid-1984 to mid-1985 is expected to total about \$8 billion, up from \$6.5 billion one year earlier, according to a survey of small business' office automation needs.

To examine the trends in this changing market that will affect its sales, Digital Equipment Corporation commissioned Arthur D. Little, Inc., to do fo-

cus group research that would pinpoint in more detail just what small business-

es want from their computer suppliers. Six industries were surveyed, including construction, legal, manufacturing, retail, accounting and wholesale.

Decision makers for companies with annual sales of \$10 million or less participated in the research. Five groups of business people in Chicago and seven in Los Angeles-two for each industry-were surveyed.

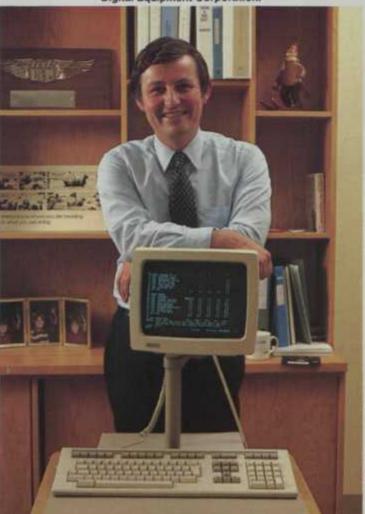
The first major finding of the research was the desire for industry-specific solutions. While all types of businesses share some basic needs, such as word processing, payroll and accounting, each wants software applications that address its special needs. For example, construction companies need job costing, legal firms need docket control, and manufacturers need inventory control.

KAREN CARPER is senior consultant for personal computer marketing at Arthur D. Little, Inc., Cambridge, Mass.

Said one focus group participant who is a general contractor and partner in a firm that employs 12 people: "A computer system must be tailored to the unique needs of my business if it is going to do me any good. The company that sells me a computer should realize that. In fact, they [the computer supplier] should know my business better than I do."

A partner in a law firm with six attornevs confirmed the need for tailored software: "Generally it seems that the supplier has chosen software for you before he understands your specific needs. After you get the computer to the office, you find you need more tailored types of software for the computer in order to do the job right."

Automation systems must be expandable, says Ward MacKenzie, a vice president of Digital Equipment Corporation.



Because computers represent a major investment, small businesses fear that a machine might not be able to grow with their companies or might become technologically obsolete too quickly. Small businesses need systems that can grow with their businesses and protect their original investment.

Another participant, the manager of a heating and air conditioning manufacturer, explained that he was not interested in investing money if a system was not expandable. He felt the system should not only be able to grow with his business, but also, in some cases, be a catalyst for that growth.

"At this moment," he said, "I can count at least four desks [in his office] that would need terminals. On down the line I can see six to eight. The hard part is finding computers today that will fit into that situation in the future without

much drastic change."

A number of computer manufacturers attempt to offer products that will help small business owners expand computer equipment without replacing machines, "For exam-ple," says Ward MacKen-zie, vice president of Digital Equipment Corporation's business computer group, "a business could start with one of Digital's single-user systems. As the business grows and computing needs increase, the business can easily increase the memory of the singleuser system" or move to a multi-user system while using the single-user computer as a terminal.

The president of an asphalt paving company with 30 employes said, "I have a roller that I've been using for 12 years. All I have to do is add a few parts to update it. If a machine is right for your business you should be able to do that-computers are no exception."

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## SPECIAL REPORT

ously," says Allison Hartmann, a spokeswoman for ASK Computer Systems, Inc., of Los Altos, Calif., "and are continually updating the software to incorporate them." ASK, which specializes in manufacturing management software, sends regular updates of its software to customers.

Small business owners do not usually have extensive computer knowledge, nor do they have an internal data processing staff. They are forced to depend on the supplier for service and

support.

"I want at least four to eight hours of one-on-one training," said the book-keeper of a floor covering firm with approximately \$900,000 in annual sales. "I need them to sit down with me and explain how the different functions work. My service and support needs are as unique as my business."

SUCH SUPPORT is often offered by computer retailers who concentrate on the small business market. "Usually we provide the customer with 20 hours of support with each accounting or total system sold," says John Marhefka, president of Worcester County Computer, Inc., in Worcester, Mass. "We may visit the customer for a few hours and get them going. Then we'll return another day, see how things are going and take them through the next steps. We'll keep returning until they are completely comfortable with the machine."

#### **Choosing a Local Network**

Which local area network is best for you? The choice can be confusing. Experts say you should consider these factors before deciding:

Hardware compatibility. Most networks can support only one or two PC products, This poses no problem if all of a firm's equipment is from one manufacturer. But if, as is typical, a business has multiple PC brands and models, networking options are narrower.

Networks are either proprietary or open. Proprietary networks may be an extension of a vendor's product line, as with North Star's Northnet, or designed by an independent vendor for another vendor's product lines, as with Datapoint's ARCnet. Proprietary networks' sales and support staffs tend to be knowledgeable about networking requirements, and the vendors provide PCs, printers and other equipment. The biggest drawback to such networks is their inability to handle more than one or two computer brands.

Open networks accommodate

many different brands of computers. Examples include Ungermann Bass' Net One, Sytek's LocalNet and 3M's Lan 1. Open networks, then, allow excellent flexibility in combining PC brands. However, they will not always have the service advantages of proprietary networks.

Number of terminals. Some networks, such as Nestar's PLAN 4000, can link up to 255 PCs. Others are limited to 32 PCs or fewer. Business growth, obviously, could overtake a

smaller network.

Vendors' claims. Remember, they are selling products and may overstate their cases. Networking representatives, like their brethren throughout the high tech industry, often speak in technical terms instead of talking about solutions to specific problems. Don't be confused or intimidated by networking jargon, make the representatives address business problems in straightforward business language. When considering any vendor, get current user references—and check them.

All groups surveyed were worried that a computer breakdown could freeze their businesses; thus, service is a must. "If my system breaks down, it must be fixed within 24 hours," said the personnel director of a 185-employe metal casting manufacturer. "At another company I had one [computer] down for a week. I got so backlogged it took me three weeks to catch up."

Small businesses buy computers primarily from computer dealers, computer manufacturers and original equipment manufacturers—companies that purchase hardware from a manufacturer, add customized software and then resell the system.

The small business market, according to a recent Dun & Bradstreet survey, is only 16 percent penetrated. Our focus

group research indicates that many companies within this largely untapped market will buy within the next year.

The research has also clearly shown that the industry players who will win among small businesses will be those who take to heart this market's need for individual attention and support—the sort of treatment that has been traditionally reserved for very large customers.

Manufacturers and resellers alike will have to make available specialized software that meets industry-specific needs, offer a clear growth path that avoids obsolescence and provide easily accessible service and support.



One common use of automation in small businesses is inventory control. A few keystrokes on a computer can replace many steps and reduce costly errors.

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#### SPECIAL REPORT THE HIGH TECH OFFICE

#### Why Managers Feel At Home in the Office

THERE WILL BE no stampede of workers from central offices to work at home, even if technological obstacles are cleared away soon. That is the message from a survey of managers and professionals whose job is to process information.

When Honeywell, Inc., researchers asked 700 of these "knowledge workers" if they would continue to go to the office if telecommunications technologies are improved enough for them to work at home, 56 percent said they would continue to go to the office every day, 36 percent said they would spend half their time at the office and half at home, and 7 percent said they would work at home, going to the office only when necessary. The remaining 1 percent were undecided.

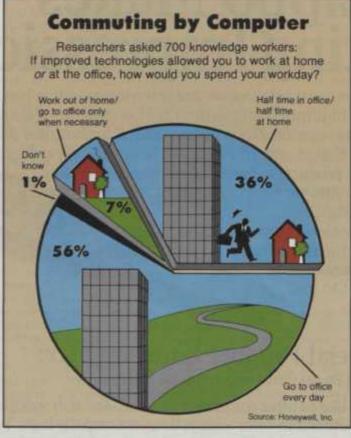
The heavy preference for doing business as usual surprises Eugene Manno, the group vice president for Honeywell's small computer and office systems

group, headquartered in Billerica, Mass. Manno thought that technical problems, not attitude, stood in the way of a migration to home offices.

By contrast, Jack Nilles of the University of Southern California Center for Future Research says the results indicate a better awareness of the possibilities of telecommunications than he would have expected. Even when the technical advantages become obvious, he says, no more than 10 percent at the outside will ever want to work full time at home. He does expect the percentage of people preferring to split time between home and office to increase.

The biggest reason for wanting to work in the office, the survey shows, is the need to be around other people to share ideas and camaraderie. "What we find is the people who can work alone are more interested in working at home." Manno says.

Professionals who spend much of their time writing or developing information tend to prefer a mix of home and office time. The higher the job in a



company's chain of command, the greater the dependence on face-to-face meetings and the greater the corresponding need to work in the office.

The survey found some differences among job functions: 46 percent of marketers would prefer the office, and the same percentage would prefer splitting their time; 72 percent of lawyers prefer the office, compared with only 24 percent who prefer splitting their time.

Some of the influences on where someone wants to work have nothing to do with the nature of the position, Manno says. "The less secure the person," he says, "the more likely he is to want to work in the office" to get what Manno calls "the audience reaction" of supervisors and colleagues to his actions.

The survey results show a direct connection between income and the desire to work in the office: the higher the income, the likelier the worker is to want to spend his time in the office. The lower the income level—down to the bottom category of "under \$25,000"—

the likelier the worker is to want to split time between office and home. The group most interested in working at home is comprised of those making between \$25,000 and \$35,000 a year.

Income goes up with age and experience, Manno notes, and older workers tend to prefer the office. In fact, preference for the office rises from 36 percent of those between 18 and 29 years of age—52 percent in this group prefer to split their time—to 76 percent of those over 60.

In line with recent studies showing that working women get little more help with household chores than nonworking women, the survey shows a marked difference between men and women. By a 51 to 40 percent margin, women would prefer to split time between home and office; by 61 to 32, men would prefer the office to spending some time telecommuting.

Workers in congested cities of the Middle Atlantic and North Central states showed the most interest in splitting time between home and of-

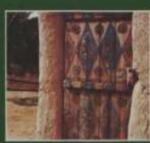
Because telecommuting, at least on a part-time basis, is particularly attractive to the disabled and women, Manno says, it could help businesses attract or retain skilled people whose services might otherwise be unavailable.

But "I've got to keep my eye on the office as the place" where business will continue to be conducted, Manno says. Honeywell will continue, he says, to think of the office—not the home— as the center of the business universe.

The survey's respondents make clear an important point about planning for automation: it is the needs of people—not new technology—that will determine the future. The survey's message is significant to those in the office automation business, because it shows technology even at its best will not bring revolutionary change to the way people work in an office.

-Mike Lewis

# Saudin \* hia



















#### Saudi Arabia and the United States: Prospects for a New Relationship

THE UNITED STATES IS Saudi Arabia's largest trading partner, and opportunities for American investment, trade and the transfer of technology are continuing. Since the first petroleum concession was awarded to SOCAL in 1933, American business has played an important part in the Kingdom's development. Then as now, there are two priorities for doing business in Saudi Arabia: mutual benefit and a long-term commitment.

When the first commercial well was discovered in 1938, no one could have predicted the historical change that was to occur in Saudi Arabia. Then an underdeveloped country with no industries and few proven resources, today the Kingdom has the largest export capacity in the free world for oil and natural gas. This past year Saudi Arabia achieved self-sufficiency in wheat production, proving that through realistic planning and determination it can reach its dream of a safe and prosperous society based

on spiritual and moral traditions rooted deeply in the Arabian Peninsula.

The Kingdom of Saudi Arabia is dedicated to continuing the growth achieved during the past decade. There are now schools, hospitals, communications systems, roads and the other services of a modern society available for the country. Saudi students no longer have to go abroad for their higher education and training. Medical facilities located throughout the Kingdom provide the highest quality of care available anywhere in the world. Young people in Saudi Arabia can look forward to housing, employment, and other opportunities that were just dreams 30 years ago.

Thousands of American companies have been part of the development process in Saudi Arabia. Today there are more joint ventures with U.S. participation than with any other country. This spring, a delegation of Saudi businessmen will visit four American cities under the joint sponsorship of the Council of Saudi Chambers of Commerce and Industry and the U.S. Chamber of Commerce. They will be looking for U.S. goods and technologies needed for the continued expansion.

The development of high technology capabilities for use in business, industry,

and agriculture are priorities both for the government and the private sector. With a scarce supply of skilled manpower and a desire to replace many items currently being imported, Saudi Arabia is concentrating on the transfer of technology to sustain future industrial growth.

Additionally, Saudi Arabia is expanding its export capability, including regional access on favorable terms to member countries of the Gulf Cooperation Council (GCC). Its proximity to Asia, Africa, the Middle East and Europe, and investment in the most efficient manufacturing processes, make its products available at low cost and at the highest standards.

When the special relationship between Saudi Arabia and the United States began more than 50 years ago. there was little trade that the Kingdom could offer besides its oil. Today Saudi Arabia has commercial and industrial capabilities and requirements that will continue to generate opportunities for businesses from around the world. As Saudi Arabia plans for the future, it relies in part on a relationship with the United States that has become a partnership based on common interests and mutual respect. It is a partnership worth preserving, and American companies are welcome to be part of this effort.

ON THE COVER. Top: an old doorway in Onaiza; the Grand Mosque at Makkah; a lake at Layla in central Saudi Arabia. Center: His Majesty King Fahd bin Abdulaziz Al Saud. Bottom: the Jeddah-Taif Highway; wheat fields in central Saudi Arabia; part of the Kingdom's Master Gas System.







The flag (top) and symbol of Saudi Arabia. The inscription reads: "There is no God but Allah, and Mohammad is the messenger of God." The swords represent justice and strength rooted in faith; the palm represents vitality and growth.

#### **Facts and Figures**

#### Location and Size

Largest country (865,000 square miles) on the Arabian Peninsula, about one third the size of the continental United States. To the west is the Red Sea. to the east the Arabian Gulf, and to the north are Iraq, Jordan, and Kuwait.

#### Climate

Coastal regions are hot and humid in summer and moderate in winter. The central area is hot and dry in summer, much like the southwestern United States, and can be cool with seasonal rain in winter. The mountainous region of the west is pleasant in summer, with cool to cold temperatures in winter. Rainfall averages six inches a year, with as little as three inches annually in the southern desert to as much as 20 inches in the mountainous southwest.

#### Religion

Islam. The followers of Islam are called Muslims.

#### Population

1974 Census Figure: 7 million Current Estimates: 8.7 to 9 million Annual Growth Rate: 3.5 percent

#### Language

Arabic is the official language, English is widely understood in most businesses and cities.

#### Currency

The Saudi Riyal (SR) is equal to 100 Halalahs in coin and is printed in denominations of 1, 5, 10, 50, 100, 500. The current conversion rate: \$1 = SR 3.57.

#### **Major Cities**

The two largest cities are Riyadh, the capital, located in the central region, and Jeddah, on the Red Sea coast. Each city has over 1 million people. Jeddah and Dammam, on the Arabian Gulf, are the main seaports. Ras Tanura and Ju'avmah, both on the Gulf, are the main oil ports. Jubail in the east and Yanbu in the west are major new industrial cities and export centers for steel, fertilizer, and petrochemical products. Makkah and Madinah, in the west, are two of the Holy Cities of Islam, along with Jerusalem.

#### **Business Hours**

Government Offices: 7:30 a.m. to 2:30 p.m.

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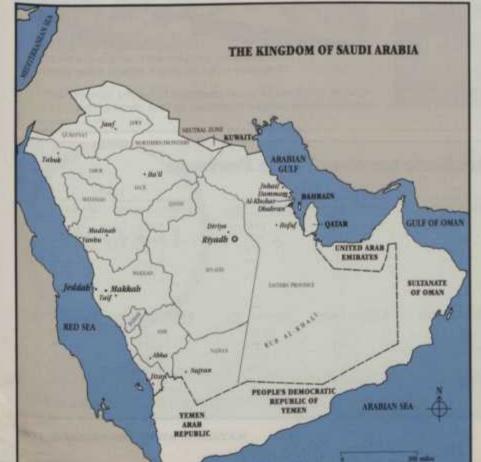
Uses the metric system.

#### International Transportation

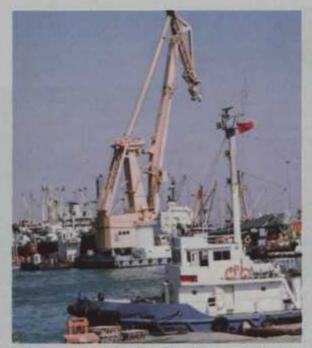
Saudia, the national airline, flies widebodied jets to 38 countries worldwide from first-class international airports in Dhahran, Jeddah and Riyadh. Saudia also handles domestic air traffic between the Kingdom's 22 airports. There are more than 20 seaports, with a total of 120 berths. Average occupancy rate is about 70 percent. Turnaround time is usually 24 hours or less.

#### Telecommunications and Media

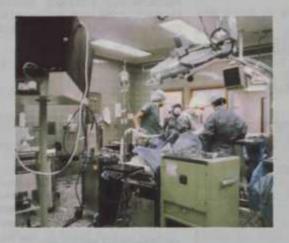
Approximately 1.2 million telephone lines and 30,000 telex lines are in service. Cable and microwave relay stations provide direct-dial access to over 100 countries. Arabic and English-language publications and television programing are available throughout the Kingdom.







With 21 ports capable of handling all types of shipping, the Kingdom has an efficient transportation system.



#### Industrial Development Creates Business Opportunities

Expansion of the industrial base in Saudi Arabia has created an ongoing demand for new technologies and equipment. The private sector and specialized government agencies require joint venture partners for building high technology industries, for maintenance and operation of existing projects, and for the continued growth in municipal and social services. There are modern, efficient and reliable facilities for foreign firms doing business in Saudi Arabia.



Desalination systems will soon provide almost 15 percent of the country's potable water needs.

Growth of the health sector continues to require management, equipment and personnel supplied by joint venture firms.

#### Saudi Arabia's Leading Trade Partners

Leading Suppliers	1983		1982		1981	
Country	\$ Million Imports	Market Share	S Million Imports	Market Share	\$ Million Imports	Market Share
United States Japan West Germany Italy United Kingdom	7,454 7,352 3,756 2,851 2,335	19.7% 19.5% 9.9% 7.6% 6.2%	8,140 7,430 4,269 2,360 2,556	21% 19% 11% 6% 7%	7,141 6,096 3,183 2,237 2,068	21,4% 18.3% 9.6% 6.7% 6.2%
Leading Buyers Country	\$ Million Exports	Market Share	\$ Million Exports	Market Share	\$ Million Exports	Market Share
Japan United States France Italy West Germany	14,300 3,570 3,060 2,600 1,500	31.1% 7.6% 6.6% 5.6% 3.3%	17,966 5,891 6,781 3,740 3,274	23.8% 7.8% 9.0% 5.0% 4.3%	19,425 14,927 10,793 8,027 4,745	17.2% 13.2% 9.5% 7.1% 4.2%

# ARAMCO assists local industry

Over the years ARAMCO has assisted and encouraged the development of the business and economic environment in Saudi Arabia. With the dynamic growth of the Saudi economy in recent. years, ARAMCO assistance has concentrated on helping promote local industry. It is the company's policy to encourage the continued development of strong, broadbased Saudi industry in its area of operations. In support of this policy. ARAMCO has maximized its purchases from local manufacturers and its efforts to prequalify additional factories as potential suppliers of products it buys. In 1982 ARAMCO placed 15.6 percent of its worldwide purchases with local manufacturers. This percentage increased in 1983 to 16.1 percent and in 1984 to 20.4 percent, ARAMCO'S Local Industrial Development Department extended technical assistance and guidance to 260 industrial enterprises during 1983 and an additional 200 enterprises in 1984. The intention is to help these enterprises become potential suppliers of Saudi-made products to ARAMCO. So far about 900 plants are part of this ongoing program, with over 500 plants already accepted as potential suppliers to ARAMCO.

A computer print-out showing the names of these manufacturers and types of their products is distributed periodically to those concerned in ARAMCO and its overseas subsidiaries. Additional marketing information relating to the manufacturing industry was distributed in a publication entitled "A Directory of Manufacturers and Products in the East-

ern Region of Saudi Arabia, 1983." Seminars, in cooperation with the Chamber of Commerce and Industry for the Eastern Province, have been conducted every year during the last four years to promote the use of locally manufactured products, and contractors handling ARAMCO'S projects are instructed to utilize Saudi products whenever possible.

More information concerning the availability and use of locally manufactured products can be obtained from:

ARAMCO Local Industrial Development Department Room 2244, Admin. Bldg. E Dhahran, Saudi Arabia



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#### **A Decade of Development**

BETWEEN 1974 and 1983, Saudi Arabia used its expanding oil income to fuel a massive development effort that emphasized investment in industry. agriculture, education and human resources, transportation, communications and health care.

Saudi Arabia has built a modern society with a strong infrastructural base and system of health and social services. This section highlights some of the specific achievements of the period from 1974 to 1983.

#### Industry

The Saudi economy has evolved from one dominated by the oil sector in the early 1970s into an integrated system. that is capable of self-sustaining growth. The new industrial centers of Jubail and Yanbu are two examples of the Kingdom's efforts to use it is it

Sea, at the western end of the cross-country oil and gas pipelines, were established to serve as centers for the industrialization of their regions.

By the turn of the century, Jubail's industrial zone will be the site of more than one dozen primary industries (mostly petrochemical and metal industries), and a host of secondary industries and support facilities; while the city area will have a population of around 200,000.

By the end of 1985, both cities will have completed their primary industrial areas and become "magnet centers" for support industries and related business-

Communities with complete services, such as housing, education, utilities, transportation systems and recreational

> facilities, will be in place. Jubail and Yanbu will create a variety of new products for Saudi Arabia to use and export. In addition to urea for fertilizer, methanol, steel products, and related materials currently marketed, there will be butane and its derivatives. oxygen and nitrogen, ethylene and its associated components, plastic resins, and a variety of refined products

The industrial cities are already making an impact worldwide.

The Saudi Arabian Fertilizer Company (SAFCO) set a new production record in 1984, exceeding its rated production capacity by 6 percent and receiving the International Trophy for Technology, Exports of methanol, styrene, and low density polyethylene plastic are now being made to Europe and Asia, signalling Saudi Arabia's entry into this market.

The Kingdom has also begun exporting cement and steel products to customers in the region.



Part of the massive expansion program of King Saud University was a joint venture that included Blount, Inc.

#### **Education and Human Resources**

The First Development Plan (1970-75) emphasized the construction of primary, intermediate, and secondary schools in the major population centers and also provided for the establishment of technical and managerial training centers. Between 1970 and 1983, the number of schools in Saudi Arabia rose from 3,107 to more than 13,400, an average annual growth of 13.1 percent. Total enrollment during this period rose from 347,000 to over 1.8 million.

To keep pace with increasing enrollment, a national system of junior teaching colleges was established, and in 1983. Saudi Arabia had over 42,000 teachers at various levels and a studentteacher ratio of 16:1, one of the best in the world.

In recent years, college and university education has had the highest growth rate in the number of both students and teachers.

There are currently 60 colleges and seven universities in Saudi Arabia, with a total enrollment in 1982-83 of over 75,000 students. Most of the Kingdom's institutes of higher education are less than 20 years old, and yet several, such as the University of Petroleum and Minerals at Dhahran, have already gained international recognition for the quality of their programs and facilities.

Vocational, technical, and administrative training also play an important part in Saudi Arabia's human resources development.

Vocational training is strongly emphasized in the public school system, and the abundance of technical classes and courses for adults reflects the country's commitment to a future based on industry and high technology.





The oil terminal and port at Ju'aymah (top) have a capacity to load 4.5 million barrels of crude oil a day. Below, Yamama Cement Factory, Riyadh.

# No Other Company In The World Can Make This Statement.



Ford Is A Leader In All These Technologies

• Automotive Manufacturing • Aerospace • Communication Satellites • Electronics • Experimental Engineering • Aerodynamics





#### Health

Since 1970, hundreds of general and specialist hospitals, dispensaries, health care centers, and clinics have been built throughout the Kingdom. From 1980 to 1985, the Ministry of Health built 320 regional health centers and 36 new hospitals. Saudi Arabia today has a complete health care infrastructure of modern and sophisticated facilities, and is now concentrating on maintaining and improving this system.

In addition to facilities and training for Saudi nationals, the government has also placed a strong emphasis on medical research. Among others, research schools have been established for the treatment of burns and disorders of the eye, kidney and heart. Improved training and expanded research are two factors that have contributed to significant advances in surgical techniques in Saudi Arabia over the last decade. The specialist hospitals that have been established rank among the best in the world, providing care often unavailable elsewhere in the region. The Kingdom's first kidney transplant was performed successfully last year, and other sophisticated surgical operations, such as openheart surgery, are now coming into use in Saudi Arabia.

The growing number of general and specialist hospitals in Saudi Arabia has made the Kingdom the world's fastest growing market for medical equipment. It has also opened numerous opportunities in the field of operations and maintenance, and several American firms now administer hospitals in the Kingdom. The 1985-90 Development Plan emphasizes improved quality of care and treatment, and there is a continuing demand for Western health technology and highly trained medical personnel.

#### Transportation, Communications

Since the first five-year plan was begun in 1970, the total length of roads in the Kingdom has been quadrupled to more than 64,000 kilometers of paved and rural roads. The Kingdom has an extensive expressway system—more than two thirds of all the country's intercity passenger and freight trips are made by highway.

In the area of marine transport, the Saudi Ports Authority has been engaged in a major modernization and expansion program in recent years and the Kingdom's 21 ports now offer prompt service at over 120 berths. The number of ports in Saudi Arabia has increased, and productivity has risen constantly. Shipments

to the four major ports—at Dammam, Jeddah, Yanbu, and Jizan—rose by 17 percent in 1984 to 45 million tons. Jeddah's Islamic Port is one of the busiest and most important ports in the Middle East, receiving about 400 ships every month from all parts of the world.

The National Shipping Company of Saudi Arabia (NSCSA) was founded in 1978 to work in container shipping, the method by which most of the Kingdom's imports are received. NSCSA services. among others, the ports of Baltimore, Houston, New Orleans, New York, and Norfolk as well as several Middle Eastern ports. In addition to commercial shipping, the NSCSA participates in other areas of marine transport, including rescue operations and marine navigation companies.

The Kingdom is continuing its massive telecommunications program, concentrating on infrastruc-



View of King Abdulaziz International Airport in Jeddah.

ture, equipment, and telecommunications training. The bulk of the current activity involves expanding and upgrading existing systems. The Kingdom's telephone exchange capacity reached more than 1 million lines during the 1980-85 plan; 480,000 new phone lines were installed and service was extended to more than 300 cities and villages across the Kingdom. The phone system is one of the world's most modern and efficient, and microwave links have been opened to facilitate regional communication. The number of telex lines has tripled from its 1980 total of about 10,000 to 30,000 in 1985. The telex system links 300 of the country's cities and towns with countries all over the world. The Kingdom is the 21st largest user of telex service in the world. Saudi Arabia has three standard earth stations connected to the Intelsat Satellite System, allowing subscribers to reach 145 countries.

#### **Energy and Mineral Resources**

Though Saudi Arabia is known primarily as an oil-exporting country, the Kingdom has undertaken during the last decade a number of projects aimed at diversifying the country's energy sector. Today, the Kingdom is a major producer of natural gas and refined oil products, and it is rapidly becoming a world leader in the petrochemicals industry. It operates some of the world's largest solar projects; natural gas and related fuels are used in a growing number of the



The King Khalid Eye Specialist Hospital is one of the world's largest modern eye facilities.



Scene from an old Arab Souh.

#### Success in banking backed by a heritage of trading

Trading and service to business is a heritage passed through generations in the Arab world. It is a tradition dating back for centuries.

The National Commercial Bank maintains this tradition with a wide spectrum of business banking services. Our commitment to this heritage is a part of our success.

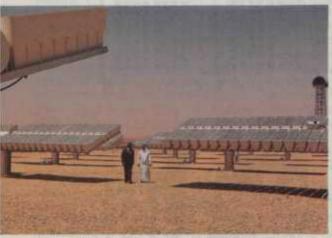


General Management: Tel: 644-6644. Telex: 405571 NCBH SJ. Cable: BANK SAUDI, P.O. Box: 3555, Jeddah 21481, Saudi Arabia New York, U.S.A.: 245, Park Avenue, 37th Floor, New York, N.Y. 10167. Tel: (212) 916-9000. Telex: A422037 NCBNYR, U.S.A.: Overseas Branches and Representative Offices: Beirut, Manama, London, Frankfurt, Singapore, Seoul, Tokyo.

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Photovoltaic power system built by Martin Marietta Aerospace for the Soleras Project.

country's industries; and substantial mineral resources are now being exploited.

In the 1970s, the Kingdom's refining capacity began to grow at a rapid pace. New refineries that are among the most technologically advanced in the world are operating at Jubail and Yanbu, and the Jeddah refinery has been expanded. In total, domestic refining capacity has risen from 120,000 barrels per day (bpd) in 1980 to 640,000 bpd in 1985, 750,000 bpd has been added to export capacity over the same period.

Further diversification has been achieved with the completion in 1981 of the Master Gas System, which gives Saudi Arabia the capability to gather and utilize its sizable reserves of associated natural gas. The Master Gas System is a sophisticated network of gas-oil separation plants and gas processing and fractional plants that treat and prepare the gas for industrial use. These plants are all linked by a computer-controlled pipeline system whose core is the 750-mile natural gas liquids (NGL) pipeline. With this system, virtually all of the Kingdom's estimated 85 trillion cubic feet of associated gas can be used productively and efficiently.

Within the last five years Saudi Arabia has intensified its efforts to map and exploit its vast mineral resources. To date, most of the discoveries have been in central and western Arabia, but there are also significant deposits on the Red Sea Coast north of Yanbu. The most common minerals found in Saudi Arabia are gold, silver, and copper. Bauxite reserves are second to petroleum in terms of volume. Several other minerals, both metallic and non-metallic, have been found in lesser quantities: zinc, iron, nickel, pyrite, molybdenum, phosphate,

The Saudi Consolidated Electric pany (SCECO), the national electric

company in the Kingdom, has been active in the construction of generating facilities, transmission and distribution systems, and substations throughout the country. Domestic consumption of electricity grew at an annual rate of 37 percent between 1975 and 1980. In response, over 36,000 miles of new transmission lines were installed between 1980 and 1985. Generating capacity grew by 7,568 megawatts, and 600,000 new customers were added to the network.

#### Agriculture

Self-sufficiency, a remote goal at the start of the 1970s, has been achieved in several basic foodstuffs, such as eggs, dairy products and wheat. Between 1975 and 1983, egg production jumped from 204 million to 1.2 billion, allowing Saudi Arabia to meet domestic demand and begin exporting. Self-sufficiency in dairy products was achieved by 1983, and the more than 20 new dairy farms that have been built since 1980 give Saudi Arabia the largest number of dairy farms in the Middle East.

Record production levels and substantial expansion of productive capacity have been achieved in the Kingdom's fisheries and on its livestock farms. The most striking accomplishment in Saudi agriculture has been the enormous in-

crease in wheat production. In 1977, wheat production totalled a modest 3,000 tons. By 1983-84, production had risen to 856,000 tons, accounting for more than 90 percent of all the wheat consumed in the Kingdom. The 1984 harvest of 1.3 million tons continued this upward trend, and represents an increase in wheat production of almost 1,000 percent in just over five years. The Kingdom was cited by the Food and Agricultural Organization (FAO) for this achievement, which moved Saudi Arabia from being a wheat importer to self-sufficiency and an export capability.

The Kingdom's water resources are a special concern in a country with no inland rivers and where water shortages have been a constant threat. Saudi Arabia uses desalinated and treated water to supplement its aguifers, and more than 100 dams have been built to control seasonal water flow. The Kingdom is continuing its exploration efforts aimed at securing longterm water sources.

#### Budget

Saudi Arabia's budget for fiscal year 1984-85 projects expenditures totalling \$76.5 billion and revenues of about \$63 billion. The estimated \$13.5 billion deficit is to be financed by drawing down on the country's general reserves. This budget reflects the country's stabilizing and maturing economic picture. It also represents a new phase of economic development in Saudi Arabia: With most major infrastructural work now complete, the government is now concentrating on maintaining this base and improving the



Modern irrigation technologies have greatly increased the amount of acreage under cultivation.

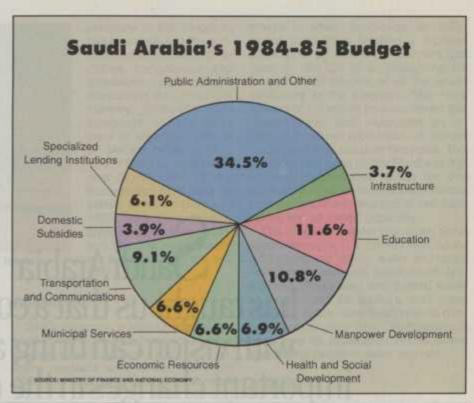
Saudi Arabia
has taught us that a country
with vision can bring about
important changes in the economic
and social well-being
of the world.

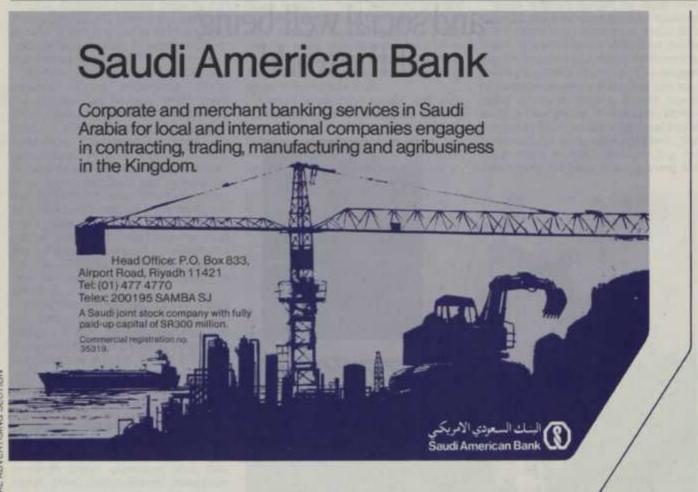




quality of services in the Kingdom. These new priorities are reflected in the changing sectoral allocations. Education is to receive almost \$9 billion in 1984-85, up from \$7.26 billion during 1983-84. Spending on social development and health care projects is projected at \$5.32 billion, up from last year's \$4.16 billion. The Municipal Services allocation of \$5.13 billion is a substantial increase over 1983-84 spending of \$3.27 billion. In contrast, spending on infrastructure is to rise only slightly, from \$2.76 billion last year to \$2.9 billion this year, and the transportation and communications sector will receive \$6.95 billion, which is a small increase over the 1983-84 level of \$6.5 billion.

Hospitals and health care programs, schools, electricity distribution and agricultural projects are some of the areas receiving emphasis in the new budget. As Saudi Arabia continues to consoll-date the tremendous development of the last 15 years, more attention will be given to these and other areas that serve to improve the quality of life in the Kingdom.





# Staying in the game means playing by the rules.



In the 1984 Olympic Games, the Saudi soccer team emerged as a force to be reckoned with in the future as world-class players, and time proved it when the Saudi team won the Asian Cup'84 in Singapore. In much the same way, SABIC (Saudi Basic Industries Corporation) is emerging as a world-class supplier of petrochemicals, committed to the rules and conventions of international trade, now and in the future.

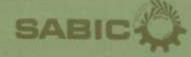
Part of the commitment stems from our Islamic heritage, with its strong code of friendship, fairness and honor, a code that has long been a stabilizing influence on the world oil scene. SABIC will abide by this code in marketing world petrochemicals. We consider it to be not only a matter of national pride, but the basis for good business.

In the other key areas of technology, quality control and a reliable source of supply and delivery, we offer the world petrochemical market a wide spectrum of products of the highest quality.

We see our role, both now and in the long term, as best summed up in

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a statement by the President of SABIC Marketing Co. Ltd. Abdulah S. Al-Nojaidi: "We will play by the



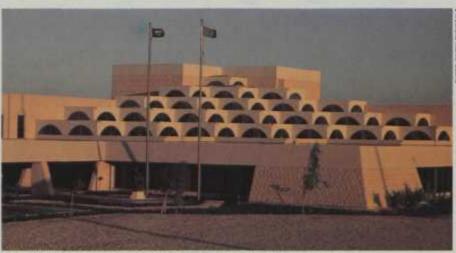
World Class Petrochemicals. World Wide Cooperation.

P.O. Box 5101, Riyadh-11422 Saudi Arabia

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#### National Development And The Business Community



The administration building of KEMYA, the SABIC-Exxon joint venture in Jubail, which produces low-density polyethylene plastic.

Hospital Corporation of America's commitment to improving the quality of health core worldwide translates into the planning, implementation, staffling and monagement assistance of modern footilities around the world. Our association with the King Folsal Specialist Hospital and Research Centre and the King Folsal National Guard Hospital in Riyach, Saudi Arabia, are prime examples of the power of cooperation and partnership demanded in such a significant undertailing. These footilities are staffed by health care professionals from North America, Europe, and the For and. Middle East. This cooperative spirit is bringing about significant medical and scientific advancements for the people of Sould Arabia.

The Partnership between HCA and the Kingdom of Saudi Arabia has resulted in mutual benefits for both of us. As we work roward Sould Arabia's gool of a thoroughly modern, sophisticated system of health care for all of their people, our own ability to grow and provide improved service continues. It is in this split of partnership that HCA's global mission of providing state-at-the-art health care is best realized.

For further information on HCA and its projects, please write HCA international Company, P.O. Box 550, Noshville, TN 37202.

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ALTHOUGH THE Arabian Peninsula historically has been known for its trade activities, no one could have predicted the recent growth of Saudi Arabia as an international industrial and commercial center. The Kingdom is a recognized leader in the world oil industry, and has used its revenues to build a modern society with a high standard of living.

The government and private sector are the keys to the Kingdom's development. Through their partnership, Saudi Arabia has successfully set out to diversify and strengthen its economy. Today the country has the infrastructure and the technology to ensure its continued growth despite fluctuations in oil demand. Saudi Arabia can point to its commercial, industrial and agricultural sectors as indications of the talents and determination of its people.

#### A Diversified Economy

Historically, water and arable land had been the major needs of Saudi society. After World War II, Saudi Arabia was faced with a new set of challenges. Oil exports and revenues created opportunities for modernization: Cities grew, new industries developed, and the needs of the society changed. The government initiated basic services for the people including roads, hospitals, schools, and water resources. More than \$400 billion has been spent in the last 15 years on the country's infrastructure and public services.

The impact of these efforts accelerated rapidly in the mid-70s when oil prices began to reflect more accurately the market value of oil and revenues increased. As the economy grew, it became clear that the private sector had a critical role to play in diversifying the economy away from its reliance on crude oil exports. Although capital investment in the infrastructure continued to be the government's responsibility, Saudi Arabia was committed to supporting the growth of an effective private sector to enhance its efforts.

In the beginning, the business community was involved in such essential services as importing and distributing goods, establishing maintenance and support systems for projects and industries, and building up the country's commercial and financial skills.

## Innovation

It's using one airplane to deliver 48 million pounds of cargo in a single year.



## Lockheed-Georgia

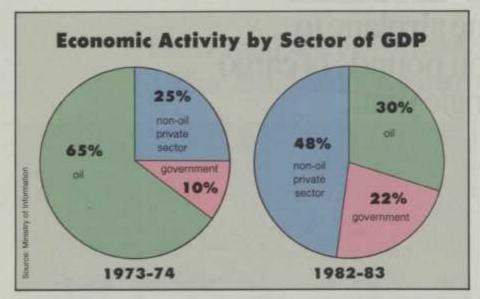
In the remote barrens of Canada, far from roads and rails, prospectors struck a bonanza. The challenge: deliver the heavy equipment needed to mine gold.

The answer arrived

quickly. A rough runway was scratched from the snow and dirt. Then a hardworking Lockheed Hercules transport hauled in a 1,000-ton-aday mill, a power plant, a smelting unit, and a complete town for 500 people. In 2½ years of regular flights, the Hercules' combination of large

capacity and short-field capability delivered all the requirements for a profitable operation.

Whether you need to develop a remote resource, or transport people and agricultural equipment to new regions, Hercules can open up new possibilities for your country.



To encourage the private sector's growth, the government set up incentive programs in industrial and commercial development, agriculture and housing. It also established policies promoting joint-stock companies that brought together

foreign technology with Saudi entrepreneurs.

Development continued at a rapid rate through the beginning of this decade, when oil demand decreased and the economy slowed down. The scope of this achievement, however, continued throughout 1983-84 despite a 33 percent decrease in government revenues. This was possible because the private sector's contribution to the nation's economy had increased from 25 percent of the gross domestic product (GDP) in 1977-78, to 52 percent in 1983-84. As important, the non-oil sector of the economy has also expanded. It is projected that the non-oil sector will continue its growth by 7 percent in real terms in the current year with a record 0 percent inflation for this sector.

Over the past 10 years, the economic components of the GDP have changed dramatically. Oil has declined from 65 percent of the country's economic activities in 1973-74 to 30 percent in 1982-83.

Heavy and light manufacturing, petrochemicals and refined oil products, chemicals, agriculture, banking and associated services, and retail/wholesale sales have led the diversification of the economy. It is anticipated that growth will continue steadily over the next decade, replacing many items currently imported and creating products for export.

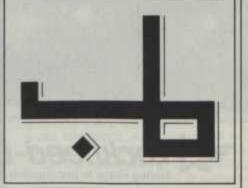












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# A FEW WORDS ABOUT PROSPERITY AND PARTNERSHIPS

GENERAL MOTORS MAKES.

The many mutually beneficial business relationships between the countries of the Middle East and the U.S.A. have been of great importance to all of us over the years. We are most grateful for the spirit of coaperation which has allowed those enterprises to flourish. One of those is the partnership between General Motors and its dealerships in the Middle East.

For more than seventy-five years, General Mators has evolved into one of the largest and most successful corporations in America. For more than thirty-six of those years, we have had dealerships in the Middle East. As the number of dealerships has grown, so has our sales and service training capability and our ability to satisfactorily meet customers needs. Some of our dealers now have sophisticated computer connections which enable them to order parts directly and efficiently from the U.S.A.

From simple beginnings to the high-tech present to the mind-stretching developments of the future, General Motors has always been and will always be on the scene assuming its position of leadership in the corporate world.

We are proud of the continuing cooperation between our countries and between our businesses. And we are confident of continuing our prosperous partnership far into the future.



#### AUTHORIZED GENERAL MOTORS DEALERS SAUDI ARABIA

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Abdul Aziz & Mohammed A. Aljomaih Dammam

Abdul Aziz & Mohammed A. Aljomain Riyadh

Aljomaih Co. for Trade & Import Jeddah Arabian Motors & Engineering Co. Ltd. Dammam

Omar A. Balubaid Est Jeddah

Balubaid Motors Est. Medina

General Machinery Agencies Al Khobar

General Machinery Agencies Jeddah Al Huseini Corp. Medina

Jubail Motors Est. Jubail

Najd Corp.

Al Nassr Trading Est. Jeddah

Northern Motors Establishment Tabuk Sible Est. Jeddah

Sibie Universal Est. Yanbu

Abdul Majid M. Zahid and Sons Yanbu

Zahid Motors and Imports Co. Ltd. Jeddah

Zahid Universal Motors Co. Ltd. Riyadh



#### The Commercial Sector

During the boom decade 1974-83, imports flooded into Saudi Arabia from all parts of the world. Almost any consumer item and industrial technology was for sale in the Kingdom, creating an incredible market for the industrialized countries. Today, the rate of growth in commercial trade reflects the general state of the economy: more stable, less spectacular and more efficient.

The Saudi commercial sector is based on a free enterprise system. There are no currency restrictions, customs and tariffs are extremely low in most cases, and special provisions are made for items manufactured in the Kingdom. Government incentives and policies have been essential for the expansion of business activities in the Kingdom. The Real Estate Development Fund has provided loans for shopping centers, hotels, apartment complexes, and mixed-use buildings. The Agricultural Bank has made possible progress to the point where Saudi Arabia is self-sufficient in many foodstuffs and exports regionally.

The Industrial Development Fund has committed its support to industries such as cement and construction materials. food storage and processing, chemicals, textiles, automotive assembly, and light manufacturing.

Through its 30 percent rule requiring subcontracts to Saudi companies on major contracts awarded to foreign firms, and preferential purchasing policies for domestic products, the government has enabled business to develop skills, acquire technology, and train manpower to meet the country's needs.

A major result of this government support has been the ability of Saudi Arabia to develop its non-oil exports. In 1984, close to \$5 billion worth of goods made in the Kingdom were sold abroad, up from \$4 billion in the previous year. The country's imports have also shifted. A comparison of goods received from the United States since 1978 indicates that Saudi Arabia has moved from a high demand for consumer items and heavy machinery to selected imports of manufactured goods and factory equipment. Chemicals for processing and health

equipment have risen while refined oil products have decreased.

The banking sector has also played an impressive role, making loans, handling government credit programs, extending a full range of consumer and business services, and linking the Saudi banking community to international financial and investment markets. Even in the last two years, the banking system has continued to grow with a 16 percent increase in branches and a similar rise in capital and reserves.

The government's credit organizations, particularly those that provide loans for housing, business, agriculture, and private industrial development, increased their commitments in 1983-84 by \$5 billion for a total of \$43.8 billion worth of loans over the past nine years.

#### Continued Growth Anticipated

Trade and commerce are essential to Saudi Arabia's future development. As the industrial capacity of the country grows, new domestic and international markets must be found. It has been esti-

In the name of Aliah the Beneficient the Merciful



#### Dar al-Maal al-Islami Trust

Authorized capital US\$ 1 billion Paid-up capital US\$ 316 million

ISLAMIC FINANC In three years of operations Dar Al-Maal Al-Islami has established 18 subsidiaries in 12 countries offering a wide range of Islamic services and investment opportunities to the Moslem population:

- 6 Islamic Investment Companies
- 6 Islamic Massaref\*
- 2 Islamic Takafol\* Companies
- 4 Islamic Business Companies, \* (Islamic banking and insurance respectively)

They serve more than 60,000 clients mainly in Saudi Arabia. United Arab Emirates. Bahrain, Qatar, Egypt, Sudan, Guinea, Senegal, Niger, Turkey, UK and Luxemburg.

Group assets under management are now more than US\$ 1,3 billion. Profits distributed to investors in Modarabas and other investment accounts for the financial year 1983-1984 by the Islamic Investment Company of the Gulf (Sharjah), a subsidiary of D.M.I., were more than US\$ 50 million.

For further information contact:

Dar Al-Maal Al-Islami SA (a service company of the DMI Group) \*84, av. Louis-Casal 1216 Cointrin-Geneva. Switzerland Tel. (022) 98 40 40 Th: 28391 shar chi

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mated that trade policies adopted by the Gulf Cooperation Council, of which Saudi Arabia is a founding member, will increase markets open to the Kingdom by 60 percent. Saudi Arabia's proximity to Asia and Africa and easy access to Europe make trade a natural activity.

Through close coordination with the government's various planning organizations, the business community has made great progress in developing its trade strategies and skills. The Saudi Council of Chambers of Commerce and Industry, which groups together 90,000 businesses in 18 organizations across the country, has been instrumental in promoting policies that encourage private sector growth.

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#### Saudi-U.S. Joint **Economic Commission**

Initiated in 1974, the Joint Economic Commission was established to assist in the development of Saudi Arabia through cooperative programs in many fields including industrialization, trade, manpower training, agriculture, and science and technology. The commission is co-chaired by the Saudi Minister of Finance and National Economy and the U.S. Secretary of the Treasury.

The private sector has contributed much to the technology transfer involved in Joint Commission projects. Since 1975, about \$800 million in contracts has gone to the U.S. and Saudi Arabian private sectors. Some projects are carried out entirely by the private sector through direct contracts with U.S. government agencies, while others use private firms for aspects of an entire project.

The Saudi Arabian-United States Private Sector Dialogue was established in 1980 to provide a forum for contacts between the private sectors of both countries. It meets in conjunction with the annual Joint Commission meeting to discuss common concerns such as joint venture regulations.

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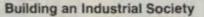


#### **Private Sector Leads Transition**

S AUDI ARABIA'S strategic location on the Arabian Peninsula and its traditional orientation toward regional trade have deeply influenced the atmosphere for doing business in the Kingdom. Today's Saudis are merchants, managers, and administrators comparable to their

Western counterparts.

Prosperity in Saudi Arabia has encouraged the growth of an active middle class working in industry and government as well as the service sector. With its extensive social support system in place, the government has virtually eliminated poverty and made a decent standard of living possible for the great majority of its citizens. The young population of the country can look forward to employment opportunities that utilize the skills and modern education that they receive in Saudi Arabia and overseas.



When the growth in oil revenues first made industrialization feasible, it was apparent that the government was the only source for the massive amounts of capital that were required. From the beginning, the industrialization policy pursued by the government was based on three commitments:

· To a free enterprise system which relied on a strong, capable private sector working in partnership with the government:

. To "privatization" of governmentbuilt industries as soon as possible so that they would be majority owned by the public; and

. To "Saudization" of the work force so that Saudi citizens acquired the skills to run the country.

To increase the participation of the private sector, the government created industrial parks, established specialized agencies to attract high technology joint ventures, and supported a variety of commercial and industrial projects with the private sector.

Loans, tax breaks, customs exemptions, supports and allowances fueled the bulk of the projects during the boom decade 1974-83, and the results continue to be impressive.

The government's efforts have generated an increasing number of opportunities for the private sector, and the business community has assumed a much greater role in national development. As



Sulaiman S. Olayan (right), chairman, Saudi Council of Chambers of Commerce and Industry, cochairman of Saudi-U.S. Private Sector Dialogue group, with Yusuf A. Nimatallah, executive director of the IMF.

the Kingdom enters its current transition to an export-oriented, industrialized country, it looks to the private sector to create industries that use the products produced by government industries. At the same time, the government companies already have begun selling their shares to the public so that a greater number of Saudis now participate in the "privatization" program.

#### Finding the "Right" Partner

The government encourages the private sector to invest in projects that promote import replacement and create high technology industries which are not labor-intensive. The preferred way of doing business is a joint-venture that has at least 25 percent Saudi participation. Foreign companies find this arrangement attractive for several reasons:

- . The economy of the Kingdom is a free enterprise system that encourages innovation and rewards productivity.
- · Government support programs provide up to 50 percent of the initial capitalization for well-designed projects that conform to government standards.
- · Products have preferential access to domestic and regional markets.
- · The ready availability of petroleum and mineral resources, transportation facilities, and communications systems mean reduced costs for production and shipping.
- · The government has already identified its priorities for projects, and a num-



ber of feasibility studies have already been completed.

Companies with limited experience in the Middle East are often surprised by the sophistication of Saudi entrepreneurs. It is not uncommon for Saudi executives and managers to have been trained overseas and have already been responsible for millions of dollars worth of projects. Saudis expect that their foreign counterparts will have done their homework and will present specific ideas. Foreign companies are expected to share the risk of the joint venture in terms of capital, management, and the successful transfer of technology. It is a requirement that projects make provisions to train their work force and implement "Saudization" as soon as possible.

Foreign firms will find that the process for establishing joint ventures is relatively straightforward. Government tender documents, the Chambers of Commerce and U.S. commercial agencies list project opportunities. There are a number of sources for the information and statistics needed for calculating costs and projecting markets. Joint venture partners

apply for a license with the Ministry of Industry and Electricity, which reviews the purpose of the company and makes recommendations. If approved, a license is issued and the Ministry of Commerce supplies a commercial registration number. Then the joint venture can apply for various support programs offered by Saudi agencies.

#### Reaching New Markets

The industrial centers of Jubail and Yanbu, with their petrochemical and refined oil products, increased agricultural production, and the expansion of the manufacturing sector, have created a new generation of exports for Saudi Arabia. Despite initial skepticism, the Kingdom is already exporting the bulk of its urea production and over a million tons of methanol. With its modern technology, inexpensive fuel sources, and easy access to world markets, exports can be delivered at competitive costs. Saudi Arabia is aggressively marketing its exports, particularly to its trading partners in Europe, the Middle East and Asia.

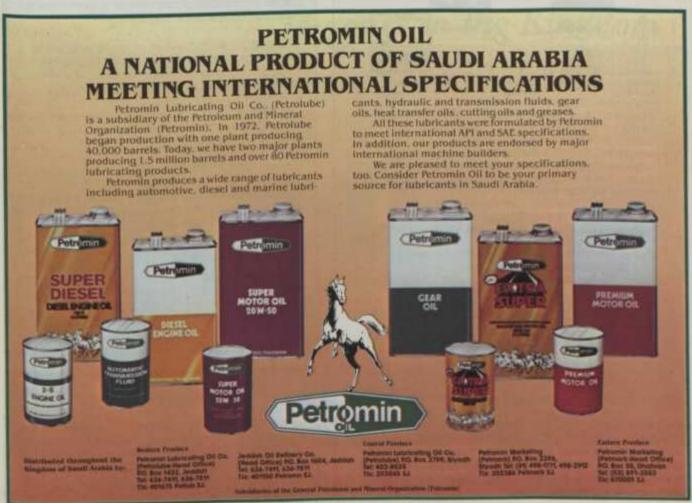
The private sector has also taken a regional view in developing its trade strategy. An example of the maturity of the Saudi market is the National Industrialization Company (NIC), which was established to pursue projects that would achieve:

- The transfer of technology, especially in "downstream" petrochemical, engineering, and mechanical industries;
- Increased exports of manufactured products;
- Diversified sources of national income through the development of large industries;
- Self-sufficiency in production and technical industrial services.

NIC acts as a holding company. Seventy-five percent of its shares are public, the balance of the shares are held by the original shareholders: businessmen, banks and local companies. There is no government ownership.

With its sights set firmly on regional and international markets, NIC is representative of the approach being taken by the Saudi private sector.

continued on page 65

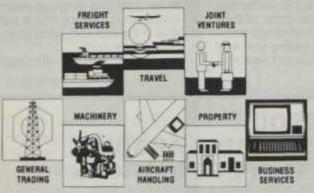


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# Saudi/U.S. Chambers To Sponsor Business Mission

In April, the Council of Saudi Chambers of Commerce and Industry will cosponsor a Business Mission to the United States. The Mission will be led by the Deputy Minister of Commerce, H.E. Dr. Abdulrahman Al-Zamil who will be accompanied by several government officials. Abdallah T. Dabbagh, Secretary General of the Council, is coordinating the participation of the private sector.

The Chamber of Commerce of the United States is cosponsoring the Mission which will travel to four cities: Washington, Boston, Indianapolis, and a Pacific coast location. The U.S. Department of Commerce will be participating in the Washington portion of the trip.

The purpose of the Mission is to introduce the American business community to the possibilities for trade, investment, and technology transfer in the Saudi Arabian market. A special priority will be placed on discussing joint venture opportunities for American companies in Saudi Arabia.

One of the main activities of the Mission will be a two-day conference in each city that will provide a forum for focusing on specific investment and trade opportunities, with an emphasis on "matching" Saudi Arabian delegates and the American participants. The Saudi Arabian businessmen will represent more than 30 large and medium-size companies in all areas of business activity in the Kingdom.

Intermarket Network Corporation, an investment and trade services firm, has been asked by the Mission sponsors to act as organizers of the Mission events. If you would like to learn more about the Saudi Arabian Business Mission to the United States, contact Intermarket Network Corporation by writing to 1100 Vermont Ave., N.W., Suite 720A, Washington, D.C., 20005; or by calling (202) 822-9127; or by contacting Harnad S. Jared, Representative of the Saudi Chambers, at the Commercial Office, Royal Embassy of Saudi Arabia, 601 New Hampshire Ave., N.W., Washington, D.C., 20037; phone: (202) 342-3800.

#### ACKNOWLEDGMENTS

This supplement was prepared by Transnational Associates, Inc., of Washington, a communications services firm specializing in U.S.-Arab commercial and public affairs. The information used in the supplement was drawn from various Saudi and U.S. sources.



continued from page 63

#### U.S. Firms Need To Move Quickly

The United States has been Saudi Arabia's largest trading partner since World War II, although the European Community and Japan have a greater value of overall trade when both imports and exports are included. The Kingdom has moved from having a trade surplus with the United States in 1981 to becoming one of the few countries that now helps relieve the American trade deficit by buying more from the United States than it sells to it.

Similarly, American firms are the leading participants in joint ventures; however, on an aggregate basis, they fall behind Europe and the Middle East. The emphasis on high technology, export-oriented, minimum work force projects provides many opportunities for U.S. companies which want to do business in the Kingdom. Other industrialized countries, particularly Japan, Germany and France, are accelerating their joint venture efforts, and may soon overtake their American counterparts. As the data indi-

#### For Information on Saudi Arabia

Director of Foreign Trade Ministry of Commerce Riyadh, Saudi Arabia

Foreign Investment Bureau Industrial Affairs Agency Ministry of Industry and Electricity P.O. Box 5729 Riyadh, Saudi Arabia

Council of Saudi Chambers of Commerce and Industry Riyadh Chamber Building Al-Dhabab Street P.O. Box 16683 Riyadh, Saudi Arabia

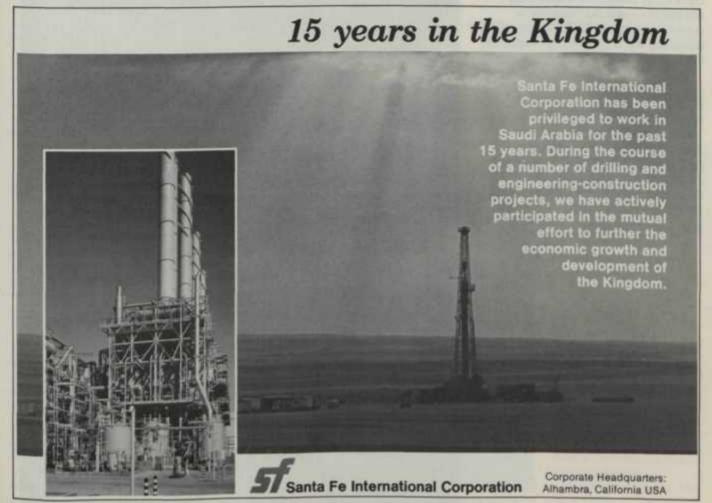
U.S.-Arab Chamber of Commerce Suite 4657 One World Trade Center New York, N.Y. 10048 Saudi Basic Industries Corporation P.O. Box 5101 Riyadh, Saudi Arabia

Ibrahim F. Khoja, Commercial Counselor Royal Embassy of Saudi Arabia 601 New Hampshire Ave., N.W. Washington, D.C. 20037

Harnad S. Jared, Representative Council of Saudi Chambers Commercial Office Royal Embassy of Saudi Arabia 601 New Hampshire Ave., N.W. Washington, D.C. 20037

J. Philip Hinson, Director, Middle East Affairs, International Division U.S. Chamber of Commerce 1615 H Street, N.W. Washington, D.C. 20062

cates for 1983 and again this past year, Japan almost passed the United States as Saudi Arabia's largest trading partner. A preference for American products and long presence in the Kingdom have maintained the edge for the time being. The future very much depends on the willingness of American companies to make the long-term commitment to business that a joint venture requires.



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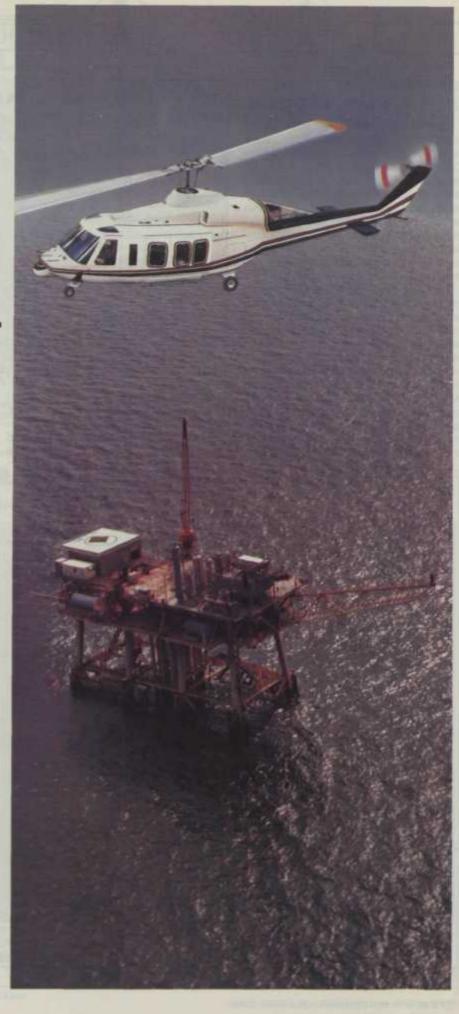
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#### **Thumbs Down on Bottoms Up**

By Gabe Mirkin and Mona M. Shangold

ORE THAN 70 million Americans drink alcohol regularly. Of that number, more than 10 million drink so much that they damage their health. A study by Thomas Turner of Johns Hopkins Medical School puts the maximum safe limit at three drinks a day. A drink is defined as the amount of alcohol that the liver can break down in one hour: the average mixed drink, 12 ounces of beer or 5 ounces of wine.

Don Cahalan says in his book American Drinking Practices that those most likely to drink possess characteristics very much like those of the average business executive. They have high social status, are college graduates and live in the suburbs. The most likely age for heavy drinking is 45 to 49, a time in life when the busy executive should be at his peak. Many executives work hard for years to get to the top only to find that alcohol has hindered their ability to function successfully once they have reached their goal.

Not only can heavy drinking cause liver and heart damage and increase one's chances of developing certain types of cancers, it can severely damage the brain. One study shows that 59 percent of heavy drinkers under the age of 35 have impairment on standard testing for memory, comprehension and

concentration.

Myths about drinking sometimes

masquerade as science. One is that moderate drinking will make you healthier by raising blood levels of a "good" form of cholesterol thought to protect individuals from heart attack. Recent research has shown that alcohol does not enhance this protector.

Nor does alcohol help control your weight. Some alcoholics are thin only because they are on a limited budget. Without enough money to buy both food and drink, they

GABE MIRKIN, M.D., and MONA M. SHANGOLD, M.D., are both associated with the Georgetown University School of Medicine in Washington.

choose drink. Alcohol can in fact cause you to eat more, by increasing stomach acidity, a stimulus that makes you hungry. And alcohol is a dense source of calories, containing 7 calories per gram, whereas carbohydrates and protein contain only 4 per gram. A jigger of 100-proof alcohol contains 125 calo-

Another myth is that alcohol im-

Those most likely to drink are very like the average business executive.

proves your sexual performance. Shakespeare was right when he said in "Macbeth" that alcohol "provokes the desire, but it takes away the performance." Many a man knows that alcohol can lead to some of life's most embarrassing moments.

"Intoxicated" translates to "poisoned," and your body knows a poison when it sees one. It goes to work right away to get rid of any alcohol you take in. Alcohol is quickly absorbed from your intestines into your bloodstream, which carries it to your liver to be broken down. But if you ingest alcohol faster than your liver can break it down, alcohol will accumulate in your bloodstream and be carried to the brain.

Alcohol is such a strong dehydrator that when it reaches your brain, it pulls the water out of the cells. This alters the concentration of minerals inside the brain cells and interferes with brain function. You may feel tipsy, dizzy and

You cannot change the rate at which your liver breaks down alcohol, but you can slow its absorption into your bloodstream. Less than 20 percent of the alcohol is absorbed from your stomach; the rest is absorbed from your intes-

BEFORE YOU DRINK, eat fat-contain-ing foods such as cheese dips, fatty meats or buttered toast. Fat keeps food in your stomach longer than any other food component. Having food in the stomach keeps the alcohol there longer and delays its absorption.

Some other tips for handling alcohol

· Drink only when you are relaxed. Drinking when you are tense causes you to drink more. And drinking when you are depressed will only make you more depressed.

· Learn to drink slowly. This allows the liver more time to break down the

alcohol and keep blood levels from rising too high.

- · Drink only once a day. Several different studies show that people who drink more than once a day are the most likely to drink to excess.
- · Avoid binges. Don't avoid drinking on weekdays only to drink to excess on weekends. Even though you may average fewer than three drinks per day for the week, you will still damage your
- · Dilute the alcohol with other fluids. The weaker the drink, the slower the rise in blood levels of alcohol.

Moderate drinking can be a pleasure, but only if you are in control.



You can slow alcohol's absorption into your bloodstream by eating fat-containing foods and diluting the alcohol with other fluids.



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You believe your idea for a new business is a winner. Your spouse is working, so living expenses are covered. Your net worth is small, but your ambition is big. You haven't started a business before—or run one—but then, neither had Steven Jobs before he launched Apple Computer. You haven't told your boss you are even considering a shot at the American dream. Should you take the plunge!

The founder of a successful business, asked by a student of mine to describe the type of person who should be an entrepreneur, said he or she should be "anyone who wants to experience the deep, dark canyons of uncertainty and ambiguity and wants to walk the breathtaking highlands of success. But I caution: Do not plan to walk the latter until you have experienced the former."

No doubt about it: The survival odds for start-up entrepreneurs—especially first-timers—are not favorable. Or, as George Bernard Shaw commented, any fool can start a love affair, but it takes a real genius to end one successfully.

Though no one really knows the precise data, failure is the rule, not the exception. According to the Small Busi-

JEFFRY A. TIMMONS, professor of entrepreneurial studies at Babson College, also runs a firm that acts as a consultant to growing enterprises and to companies that supply such enterprises with venture capital. This article is adapted from a book on which he has been lead author, New Venture Creation, published in 1977 and again this year by Richard D. Irwin, Inc.

## An Obsession With Opportunity

To be your own boss, you must be consumed by determination to find a market and build a business.

By Jeffry A. Timmons

ness Administration, for every three businesses formed, two close their doors. Some fields are especially vulnerable: Retailing, construction and service businesses accounted for 70 percent of all failures and bankruptcies in 1980, as reported by Dun & Bradstreet. And firms with fewer than 100 employes suffer the greatest casualties. In 1981 and 1982, for example, 99 percent of businesses filing for bankruptcy were of that size.

Yet the odds are good for some entrepreneurs—entrepreneurs like J.C. Egnew. Still under 30 in 1972, he decided to try to launch a leisure-time products company that he named Outdoor Venture Corporation.

No bank would provide start-up capital, and several venture capital firms turned him down. But he persevered, found help to develop a business plan and raised start-up capital at a time when there was practically none. Today OVC, located in Stearns, Ky., is the largest independent manufacturer of

family camping tents in North America.

Or take high school drop-out Tony Harnett, of Brookline, Mass., and his wife, Susan. They have never raised venture capital, yet they have built Bread 'n Circus, a natural food business that they bought in 1976, from a faltering shop with \$110,000 in sales to a chain with more than \$16 million in sales last year.

There are lessons here for other aspiring entrepreneurs in search of the American dream.

W HAT MAKES THE difference for the Egnews and Harnetts of the world is, first, that their enterprises are driven by highly committed lead entrepreneurs whose ambition is to build a business. Such people have terminal cases of unrelenting determination to attain results. Often these successful founders build a team as well—they know how to let go. They are more concerned with building the business than with calling all the shots. The lat-

Tony Harnett and his wife, Susan, have built Bread 'n Circus from a faltering natural foods shop into a chain with more than \$16 million in sales—without using venture capital.



ter style often results in firms that plateau in sales around \$1 million to \$3 million.

Second, successful entrepreneurs search for superior opportunities, not just novel ideas. Numerous trial and error attempts often accompany this search.

Third, they consciously work at doing more with less. They seek to control rather than own resources. Further, they often employ the minimum resources to get the job done. They tend to prefer the discipline gained by starting a business with too little money to

the fat and happy mentality induced by excessive start-up funding.

The odds of succeeding at owning your own business escalate with your determination and commitment. If running the show is what gives you sustained energy, your determination to achieve will become contagious. But you need to temper urgency with patience. After all, it takes three, four or more years to get a new business on solid footing. Venture capitalists often say that "the lemons ripen in 2½ years while the pearls take seven or eight."

Determination alone is not enough.

Relevant experience and know-how in the same business is invaluable. Experience pays off in securing and dealing with customers, gaining your banker's confidence and attracting additional talent to your venture. You need management experience—ideally in a dynamic, growing firm.

Most successful entrepreneurs have not left this process to accident or osmosis. Several studies show that 90 percent or more of successful business founders start their companies in the same market and technology or service area where they did their apprentice-

ship.

Also, you need the discipline to realistically assess yourself. Do you have the know-how, skills and commitment to make the business work? Do your strengths in the areas vital to its success make a good "fit" with the opportunity?

S PEAKING OF opportunity, if you have customers, you have a business. Successful entrepreneurs usually are not inventors. Inventors often become myopically obsessed with their idea. The opposite is true of most successful entrepreneurs. Like inventors, they are creative, but the opportunity is their obsession. They let the customer and market guide the creation of the product or service.

In essence, they know customers will help them learn whether new products or services have a serious chance of succeeding. A significant number of new firms obtain start-up funding, sometimes through a direct investment,

#### A Tool To Make a Dream Reality

One of the most effective tools in converting your vision of a business of your own into a believable—and therefore fundable—enterprise is to develop a business plan.

It may take 200 or 300 hours, but it can be worth the effort for several reasons. It can convince lenders or venture capitalists that your enterprise is worth putting money into, attract key workers you would like to bring aboard and convince suppliers that you will be able to pay.

A coherent 20 to 30 pages is preferable to a longer, hard-to-follow

tome. Key ingredients:

 Executive summary: One or two pages that summarize your plan, entry strategy and what you envision doing, give the size of the market opportunity and tell why it exists, estimate your expected sales and profits, and give the amount of money needed and key uses for it.

 The opportunity: Specifics about the size, growth, durability and profitability of the market you are going after and about the competition. For retail businesses, a thorough location analysis, a list of customers or users, and a marketing plan for sales, pricing and distribution.

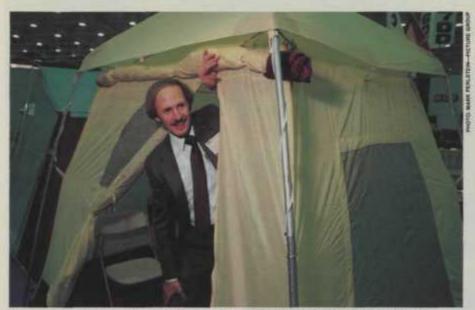
 Management: Identification of the owners and managers of the business and a summary of relevant experience and know-how. Give organization and compensation details. Include a personal financial statement typically required for a bank loan.

. The economics: Gross and operating margins, profit potential and durability. Fixed and variable costs, Months to reach break-even and positive cash flow.

 Operations: Necessary facilities and manufacturing or retail layout pian. Regulatory and other legal and compliances and approvals. An overall schedule by month and key event.

 Financial plan: Profit and loss, cash flow and balance sheet projections—monthly for the first year, quarterly for the next two. A breakeven chart. Capital requirements and uses. List assumptions and reasons for estimates. You can save time by using a microcomputer spreadsheet.

 Critical risks and contingencies:
 A realistic appraisal of what might go wrong and how you will respond.
 —Jeffry A. Timmons



J.C. Egnew bucked a trend when he began his leisure-time products company in the early '70s, but he has built it into a major manufacturer of family tents.

in-kind support or prepayments, from key customers. If your idea is really a winner, potential customers are the most likely to spot it first.

Look for opportunities whose economics are especially durable, rewarding and forgiving. Venture capital investors seek gross margins of 50 percent or more in the businesses they back. (For the uninitiated, that is the difference between selling price and variable costs—such as fuel, raw materials and labor—that go into a product. After you subtract overhead—fixed expenses such as rents, or salaries that would be paid, product or no product you have your profit.)

SUCH MARGINS provide generous cushions to allow for the inevitable mistakes most start-ups experience, and to enable managers to learn while doing, without the fatal consequences of running out of cash before they gain enough customers. High margins often mean a shorter period is needed to reach and sustain a positive cash flow, and they can reduce the amount of

start-up capital required before bankers will take you seriously.

Take Tallgrass Technologies, a Lenexa, Kans., data storage products company launched in 1981. As it grew, it was able to handle annual sales of more than \$20 million—and did—without bank loans because its margins were above 50 percent. Today, with financing, its sales are at the \$60 million level.

Even margins down to 25 percent are good. Margins at OVC, the Kentucky tent company, were about 25 percent, initially. But margins below 20 percent can be more punishing than profitable. High costs, keen price competition, foreign substitutes or a combination of these are contributors to an unforgiving and unrewarding opportunity, just the kind you want to avoid.

One entrepreneur developed an innovation in aluminum picture frames and captured a dominant share in a relatively small, but profitable, market niche. The start-up market opportunity was large enough—and growing 15 to 20 percent a year—to be interesting, but small enough to be ignored by large

companies. He recently sold his company for \$22 million to a larger European firm seeking entry to the United States.

Finding such a market is a strategy that successful entrepreneurs often have a nose for. Contrast this with a computer services company launched in the early 1970s that grew to \$5 million in sales. Its rapidly growing, high-potential market was coveted by larger firms. The small firm collapsed when one large entrant to the market spent more than \$5 million on advertising its first year.

Your survival odds improve significantly once you exceed 20 employes. A recent California study showed that the four-year survival rate jumped from just under 1 in 2 to better than 2 in 3 among firms that grew to 20 to 49 employes, compared with those with fewer than 20. That roughly translates into a threshold sales level of \$1 million. If you have not found an opportunity with that kind of potential you may be better off waiting—gaining more experience and saving additional capital—until a more promising opportunity surfaces.

As I HAVE indicated, most successful entrepreneurs get more out of less and use other people's resources and money. They often borrow, beg, rent or barter, rather than buy. Buying invariably uses too much cash, at the wrong time, in the wrong places.

Take an owner of auto parts businesses in the Midwest. After a stint in Vietnam, he finished college and then earned a master's degree in accounting. This led him to a Big Eight firm where a client was a major auto parts distributor. He was subsequently hired as the distributor's controller and learned the parts business.

In 1980 an auto parts store in financial difficulties became available, and he saw a chance to become his own boss. Still heavily in debt from his education, with practically no net worth, he was able to buy the business for just under \$300,000 without a dime of his own. His track record gave the distributor enough confidence in him to guarantee bank loans of more than \$250,000, and he was able to borrow \$25,000 from each of two friends. In four years, he and his wife doubled sales to over \$1 million, sold the business for an aftertax gain of more than \$200,000 and acquired two other businesses.

The average person believes money is the most important thing in starting a business: First, the argument goes, you need the money. Successful entrepreneurs like the auto parts dealer know the opposite is true. Money follows performance, integrity and reliability, not the other way around.

#### **Getting Off to a Good Start**

You have decided to take the plunge and start your own venture. You may find the following secrets useful.

- There are no secrets of consequence. Understanding and practicing the fundamentals noted in this article, along with hard work, will get results.
- As soon as there is a secret, everyone else knows about it, too. Searching for secrets is not a profitable exercise.
- Entrepreneurial success is fundamentally a human rather than a financial or technological process. You, the individual, can make all the difference.
  - 4. But do not run out of cash.
- Happiness is a positive cash flow. If cash in exceeds cash out, you will survive.

Or, as my favorite Chinese fortune cookie says, "To open a business, very easy. To keep it open, very difficult."



To order reprints of this article, see page 97.



# In Japan, where high-tech electronics are a way of life, they pay \$714.93 for an American-made radar detector

(You can get the same one for considerably less)

Even we were a little surprised. All we did was build the best radar detector we knew how. We shipped our first ESCORT in 1978, and since then we've shipped over 600,000. Along the way the ESCORT has earned quite a reputation—among its owners, and also in several automotive magazines.

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One of the reasons for our reputation is our attention to detail. If we don't feel we can do something very well, we simply won't do it. That's why we sell Escorts direct from the factory to you. Not only can we assure the quality of the ESCORT, but we can also make sure that the salesperson you speak to is knowledgeable. And if an ESCORT ever needs service, it will be done quickly. And it will be done right.

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And that's the reason we don't presently sell ESCORTs outside of the United States. Even in the countries that use identical radar (Japan and Australia, to name two) we know that we couldn't provide the kind of customer service that ESCORT owners expect. So we pass up the additional sales rather than risk our reputation.

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So we'll admit we were surprised when a letter from one of our customers included an advertisement from a Japanese automotive magazine. The ad pictured an ESCORT, and the price was 158,000 yen. Our customer was kind enough to convert that to U.S. dollars. Using that day's rate of exchange, an American-made ESCORT was worth \$714.93 in Japan. Further translation revealed the phrase "The real thing is here!" and warned against imitations.



#### Econ 101

Needless to say, we were flattered. We knew that ESCORT had an impressive reputation, but we never expected to see it 'bootlegged' into other countries and sold at such a premium. But the laws of supply and demand are not so easy to ignore. When there is a strong need for a product, there is an equally strong incentive for an enterprising capitalist to fill that need. And apparently, that's just what happened.

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We still don't sell out of the country. And the price in this country is still \$245. The price we've had for the last five years.

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#### **The Public and Private Good**

Companies find that giving legal services to the needy makes both ethical and economic sense.

By Tony Mauro



Robert Hill of Aetna Life & Casualty visits with Mrs. Leo Jenkins, one of the residents of Hartford's Asylum Hill neighborhood helped by Aetna's pro bono program.

C OLORADO SPRINGS lawyer Stephen Koerner spends most of his days representing his employer, Colorado Interstate Gas Company, in contractual disputes with gas suppliers.

But recently, Koerner spent more than 100 hours representing quite a different client—a group of prisoners at nearby Canon City's jail who complained of unsafe conditions at the 100year-old facility. Koerner argued for, and won, the city's promise to build a new jail and fix up the old one.

The case of Koerner and Colorado Interstate Gas represents a growing movement among corporate attorneys to go outside the headquarters building and give legal aid, without charge, to people who need it. "We're not just a bunch of bookworms cranking out securities opinions," says Koerner.

Adds his boss, General Counsel Michael Beatty, "We feel for the first time that we are part of our community, not just part of the corporation."

Tony Mauro covers legal issues for Gannett News Service. Under the active encouragement of the 5,500-member American Corporate Counsel Association, programs like the one at Colorado Interstate Gas are proliferating nationwide. Companies as varied as Boise Cascade, Xerox, Bausch & Lomb and Coca-Cola are setting up so-called pro bono programs—from the Latin pro bono publico, which describes the lawyer's duty to devote some of his time "for the public good"—to help those who cannot afford to pay for legal assistance.

"All lawyers have an obligation to provide legal services to the needy," says the association's executive director, Nancy Nord. "That applies with equal force to corporate attorneys."

Once widely viewed as faceless yesmen—in contrast to more prestigious outside counsel—corporate attorneys are growing in stature—and in number—in company hierarchies. No one knows for sure how many of the nation's 600,000 lawyers are employed by corporations, but Nord estimates the number at 50,000 to 60,000.

That is substantially more than 5 or

10 years ago. Some surveys show large companies have doubled the size of their legal departments in recent years. In 1983 American Express Company more than tripled the number of lawyers it employed, from 42 to 139, an increase only partly explained by mergers. Allied Corporation, Chase Manhattan Bank and Sears, Roebuck are other companies that have substantially increased their legal departments recently, according to Legal Times, a national weekly for lawyers.

"Many companies had no attorneys," says Robert Hill, counsel for Aetna Life & Casualty Company. "We were viewed as a breed apart. Now we are more in the mainstream."

The reason for the increase, most agree, is money. Outside legal fees sky-rocketed in the 1970s, and money-conscious companies have been deciding that hiring in-house lawyers to handle the same work is more economical.

"As the ranks grow, all the trappings grow, too," says Nord, and among them is the entry into pro bono work. The interest parallels the legal profession's increased pro bono work generally, spurred on partly by the Reagan administration's sharp cuts in the budget for the Legal Services Corporation, the federal agency that funds programs that give legal aid to the poor.

THE ENTRY OF corporate attorneys into the nitty-gritty world of legal services thus makes good ethical sense, but corporations say it makes economic sense, too. With relatively little expenditure, companies can buy enormous amounts of community good will.

There are pitfalls, however.

Inside counsel, by and large, are far more familiar with things like patents and trademarks than with landlord-tenant law, more at home with the concerns of accountants than with those of Social Security recipients.

In some instances, company lawyers are not even licensed to practice in their own headquarters state. At Atlanta-based Coca-Cola, Deputy General Counsel Robert Callahan estimates that only about half of his 39 attorneys are admitted to the Georgia bar. Partly as a result, the company has decided to "adopt a charitable organization" and give it general legal assistance, Calla-

han says, "rather than sending our lawyers into criminal courts, which they are not really trained to do."

Corporate officials and stockholders are sometimes skittish about the roughand-tumble world of street law, where their attorneys are far more likely to make headlines than if they stayed inside company headquarters.

But those who have ventured into the field find they have overcome the problems easily—and turned their programs spend up to 10 percent of their time at this," says Hill. "But, of course, we believe in a 50-hour week."

Hill thinks the program is worth every penny it takes: "It exposes our lawyers to people and problems they might not see. And in taking care of the neighborhood, it helps neighborhood stability. Justice for the needy is a big element of a stable society."

Early in the program, Hill recalls, an Aetna policyholder objected to it, pro-

PHOTOS: AMMERCIAN PROTINCIAN CONTROL OF THE CONTROL

Stephen Koerner, attorney for a gas company in Colorado, says representing prisoners in a suit attacking conditions at the Canon City jall helped "keep professional satisfaction up."

into positive community relations tools.

At Aetna, a third of the company's 93 attorneys are involved in giving aid to elderly residents of Hartford's Asylum Hill, an aging and racially integrated neighborhood that surrounds company headquarters. Hill estimates that in 1983, his lawyers contributed 1,500 hours, at a value of \$90,000, to helping the elderly with Social Security, landlord problems and even wills. "Some

testing that "the business of business is business." Hill replied by noting the company's longstanding policy of contributing to charities.

"I think the hands-on approach is more effective than giving them money," especially from a public relations point of view, Hill says, "People expect you to give \$10 million to charity, but they don't expect companies to give time to a charitable effort." Local news media have featured the program prominently, and the benefit to the company in community good will has been considerable, Hill says.

Aetna's lawyers got training in the elderly's legal needs from the local legal services agency, Neighborhood Legal Services, which provided the training "because it will redound to the benefit of our clients," says the agency's executive director, Peter Helwig.

Helwig thinks Aetna's program and those of other Hartford companies have helped considerably at a time when budget cuts have trimmed his legal staff from 17 to 11.

IN MANY COMPANIES the pro bono work is also viewed as a positive re-

"As corporations internalize litigation, they have to recruit good people who don't want to give up their sense of professional identity," says Colorado Interstate Gas' Beatty. "This gives them that." Law school graduates who would never have considered corporate work five years ago are applying at Colorado Interstate Gas, Beatty says, and he thinks the pro bono program helps.

Beatty has his attorneys take on cases, such as the prison litigation, that will get them inside courtrooms as much as possible. "Most major corporate litigation ends up settled before trial, so our lawyers don't have much opportunity to get inside the courtroom. So I have a training goal here, to get them courtroom experience."

At the same time, however, "I don't want to have our corporate attorneys splashed over the front page" in controversial cases. So the jail case was handled by Koerner without any corporate identification linked to it.

"Obviously, it wasn't the type of case an employer is likely to get behind," recalls Koerner. "But it got me out in the community and it said to people that I can do something different, that I'm not narrowly focused. It helps keep professional satisfaction up."

#### **Reading the Fine Print**

Considering starting a corporate pro bono program at your company? Here is a checklist of elements that should go into your decision making.

Need. Survey your local community's legal needs to see if your efforts would best be devoted to helping a nonprofit organization or the local legal services group, or to establishing a legal service aimed at a particular neighborhood or segment of the community.

Training. Since your lawyers may

be a little rusty on landlord-tenant or divorce law, make sure there is a way to train them. Legal services groups may be glad to spend a few hours with a lawyer who ultimately will help lighten their case load.

Support services. Don't commit your attorneys unless you have adequate paralegal or secretarial help as well.

Malpractice insurance. Your company's insurance may not be written to protect you from exposure to malpractice claims when your lawyers do private rather than corporate work. Some insurance firms are fashioning pro bono riders; others have for some time offered "moonlighter" malpractice insurance plans for company lawyers who work privately on the side.

For further information, contact Karen Bassiri, Pro Bono Coordinator, American Corporate Counsel Association, 1225 Connecticut Avenue, N.W., Washington, D.C. 20036.

#### They Really Can Get It For You Wholesale

"Warehouse clubs" give small firms a break at the checkout counter.

By Sharon Nelton

Cuiffré drives her 1969 step van 23 miles to the Makro self-service wholesale center, a 160,000-square-foot warehouse in Capitol Heights, Md., near Washington. There she buys an average of \$500 worth of milk, cheese, produce, pet food, soft drinks and other groceries. In turn, she delivers the groceries—for a profit—to an average of 65 customers, most of them unable to do their own shopping because they are elderly or homebound.

Guiffré founded Top Banana Home Delivered Groceries in Baden, Md., in 1982. Her first week of operation, she brought in one order and \$27.86. Now her annual gross is \$130,000, and she has more than 300 regular customers.

But, she says, "I could not have started this business without Makro." She is one of hundreds of thousands of U.S.

small business owners who are enjoying the low prices and other benefits of the mushrooming numbers of private facilities like Makro—variously called "wholesale clubs," "warehouse clubs," "membership discount stores," "wholesale cash-and-carry warehouses" and "wholesale centers."

They represent a new type of wholesaling that is rapidly gaining a foothold in major metropolitan areas. And they are rolling out the welcome mat to small businesses from Anchorage to Miami and from San Diego to Boston.

The idea behind most of these new centers is to provide merchandise at or near wholesale prices to two categories of private customers: (1) small businesses—restaurants, small retailers, service firms and professionals like lawyers and accountants; and (2) individual consumers who work for or are members of a "qualified" group, such as the federal government, a hospital, a credit union or a bank.

Some, like Makro, the Buyer's Club in Denver and Sam's Wholesale Clubs (operated by Wal-Mart Stores) have targeted the small business owner as their primary customer.

TODAY, THE number of warehouses nationwide is between 65 and 75. But Henry W. Haimsohn, founder of PACE Membership Warehouse, also based in Denver, says estimates suggest the industry will grow from its present \$4 billion in sales to \$20 billion by 1990, with 300 or 400 warehouses.

Terms are strictly cash and carry, and products range from office supplies, janitorial equipment, food and tires to small appliances, liquor and cigarettes. Even in centers targeted solely



A chance to get goods at low prices in the smaller quantities they want is what draws small business owners to wholesale clubs like this one operated by PACE Membership Warehouse in suburban Denver.

on small business, it is expected that customers will do some personal shopping while they are in the center making business purchases. So items like television sets and clothing are also available.

"It is a unique combination of merchandise that is priced so low that nobody can touch us in the marketplace," says Ken Bagus, who opened his first Buyer's Club late last year and expects to have four in operation by the end of 1986.

As a "fringe benefit," Bagus says, an entrepreneur can even get food for his family at the Buyer's Club, because the center carries food for people in the restaurant business.

Such centers are a boon to small business owners, who often find themselves shut out by traditional wholesalers. Not only do the warehouse clubs offer entrepreneurs some of the lowest prices available to them, but the clubs also permit buying in the smaller quantities that, says Haimsohn, give the small business person "the ability to effectively manage his inventory.

"We started on a shoestring, with \$2,000 in capital," says Guiffré. "I could not buy through normal distribution channels because I would have to buy

in full case lots.'

She could purchase the smaller amounts she wanted at Makro, and because the center carries a wide variety of items (35,000, according to Robert E. Groebel, general manager of the Capitol Heights warehouse), Guiffré says, "I could build my stock without large capital outlay."

NSTEAD OF buying 400 pounds of ham, says Groebel, the owner of a small restaurant can buy just one ham if that is all he needs. He does not have to worry about perishables spoiling before he can use them, and he does not have to tie up cash in inventory.

About 85 percent of the 70,000 members of the Maryland outlet are in the food business, many of them small restaurateurs, institutional caterers or operators of mobile food services that

serve construction sites.

"Some may bring in their morning receipts and buy their supplies for the afternoon," says Groebel, "so they are

borrowing no money."

Haimsohn opened his first PACE warehouse in July, 1983, in a converted mattress factory in suburban Denver. The store did \$44 million in business its first full year of operation in 1984 and now has more than 200,000 members. PACE facilities now number six, with a second store in Denver, one in Atlanta, one in Charlotte, N.C., and two in Florida's Tampa-St. Petersburg area. Haimsohn plans to open eight more in 1985



PACE President Henry W. Halmsohn knew a good idea when he saw one. An admirer of the successful Price Club, he launched his own string of cash-and-carry warehouses,

and expects this year's revenues to top \$300 million.

Formerly in the retail business in San Diego, Haimsohn cheerfully acknowledges that his stores are patterned after those of the San-Diego-based Price Club, pioneer of the private wholesale club industry in the United States. "I have always been a fan of the Price Company and it looked like it would be

fun to run a company that had warehouses like theirs," says Haimsohn.

"Price" is an apt name for a company aimed at offering the lowest prices around, but it is, in fact, named after Sol Price and his son, Robert, who founded the Price Club in 1976 and now have 20 centers in operation on both coasts.

At least five of them are likely to

exceed \$100 million in sales in 1985, according to Joseph H. Ellis of Goldman Sachs.

"Price Club's enormous success has spawned myriad 'clones' that are systematically staking out markets all over the country in an effort to be the first in each area to establish this exciting new wholesale-retail distribution concept," he says in a recent report on the indus-

Imitators besides PACE include Costco Wholesale Club, which is headquartered in Seattle and now has a dozen outlets, and Price-Savers, which was started in Salt Lake City by Pay 'n Save Corporation last year and which now has four warehouses.

Wal-Mart opened its 12th warehouse store in February and is now operating centers in seven states. It hopes to have 20 Sam's Wholesale Clubs by the end of next year.

In addition to its Maryland warehouse, four-



Assisted by Pat Best, Jean Guiffré (in truck) will resell at a profit the groceries she bought at Makro.

year-old Makro, Inc., owned by SHV Holding, a Dutch firm, operates centers in Cincinnati, its headquarters city, and in Norcross, Ga., and Langhorne, Pa.

THERS WHO HAVE jumped into the fray include Zayre Corporation, which opened three BJ's Warehouse Clubs last year, and W.R. Grace & Company, which owns 50 percent of the Warehouse Club, a suburban Chicago operation that now has five units in three states. Warehouse Club founder and president Walter H. Teninga says he plans to open five centers a year in the next three years.

Typically, a center is a self-service warehouse of 100,000 square feet. The centers specialize in the most-in-demand labels, aiming for high annual turnover—some report 15 to 18 turns of stock annually versus four or five for regular discounters. Gross margins are 8 to 10 percent while pretax profits of 4 percent and after-tax profits of 2 percent are standard.

Membership policies vary. Makro charges no fee but requires that its applicants offer proof of the business, such as a license. To buy liquor, the members must also produce a liquor license.

PACE and the Warehouse Club charge their business members a \$25 annual fee. Individual members, who must belong to a qualified group, pay no fee but do pay prices 5 per-

cent higher than those paid by business members.

A member must show a pass before being allowed into a warehouse to shop. Controlling access to the facility helps keep pilferage down, according to Haimsohn.

He also says that at checkout, the customer's identification number is entered into a computer, which in turn indicates if PACE has had any bad checks from the customer.

"This allows us to significantly reduce our bad checks, getting them down to a small fraction of what they would be in a traditional operation," says Haimsohn. Such measures, he says, help PACE keep expenses—and hence, prices—down.

Stringent inventory selection and control is also imperative. Haimsohn says a rule of thumb is that a retail business generates 80 percent of its sales on 20 percent of its merchandise.

"Our concept," he says, "is to zero in on the most sought-after items, to quite literally limit our merchandise assortment to the 20 percent, and to make the 100 percent of our sales on that 20 percent." PACE carries about 4,000 different items, compared with 30,000 to 50,000 in a traditional discount outlet, says Haimsohn.

"The ability to select the right items, make those items winners and manage them well becomes one of the most critical elements in the business," he says.

At a Makro warehouse on a recent Saturday, one shopper looking for office supplies found packages of a dozen 8½x11 lined pads for \$3.50, marked down from \$5.21. The same type of pad usually retails for over \$11 a dozen in office supply stores. Scotch Magic Transparent Tape dispensers in a size regularly retailing for \$1.71 each were available for \$4.96 for a pack of six. Scotch Post-it Note Pads, bought by the dozen, were selling for 25 cents each in a size that usually retails for 39 cents.

Typically, shoppers at a warehouse use flatbed dollies or large shopping carts like those used in supermarkets. At checkout, they pay with cash or check and receive an itemized receipt. No bags are supplied, not even for groceries. The shopper loads up his cart again once the items are checked out, wheels the cart out to his car or truck and does the loading himself.

It is not as convenient as dealing with suppliers who provide delivery service, says Mark David. He is president of Roth Young Personnel Service of Denver, Inc., a management recruiting firm

A small businessman stocks up on cigarettes and candy bars at one of PACE's Denver-area warehouses.



in Aurora, Colo., that employs 15 and grosses \$500,000 to \$1 million annually. He shops at PACE every two months or so, spending \$150 to \$200 for office supplies—as well as coffee, tea, sugar and creamer for the office coffee service.

WITHOUT PACE or the Buyers Club, which he also occasionally uses. David would have to purchase supplies from a retail office supply store, using a commercial discount (generally 10 to 20 percent) or from a discount house or even the supermarket.

The inconvenience of shopping at a wholesale center is offset by the prices, which he finds are "dramatically less" than other suppliers'.

"It means a great deal to a small business like ours if we can save \$1,000 or \$2,000 a year by going out and buying it ourselves and bringing it back ourselves," says David. He estimates he saves \$300 to \$400 on copier paper alone by buying it at PACE.

Nevertheless, he and Top Banana's Jean Guiffré both advise that a small business person continue to shop around. Before signing up with a club, David says, an entrepreneur should make sure the warehouse carries the items he needs—including brands and models.

When a PACE representative contacted David to recruit his firm, he

made a list of the items his company used most often. Then he toured the facility, checking the price on each product. "That is the way we realized how substantial the savings would be."

Says Guiffré: "I continue to check prices between suppliers, the same as an individual purchasing groceries would check prices between supermarkets." Though she continues to use Makro, she says she spends less there than she used to because her growth has enabled her to use more traditional suppliers for some of her buying.

She thinks that no matter how small your business is at first, you should be firm in promoting yourself to traditional wholesalers, convincing them that you will grow and that your growth will be good for them. That way, she says, you can develop the mix of suppliers that is best for your business.

"We are a developer of small businesses, and when they grow big enough, they can leave us," says Makro's Robert Groebel. Until that time, he adds, "we fill the gap."



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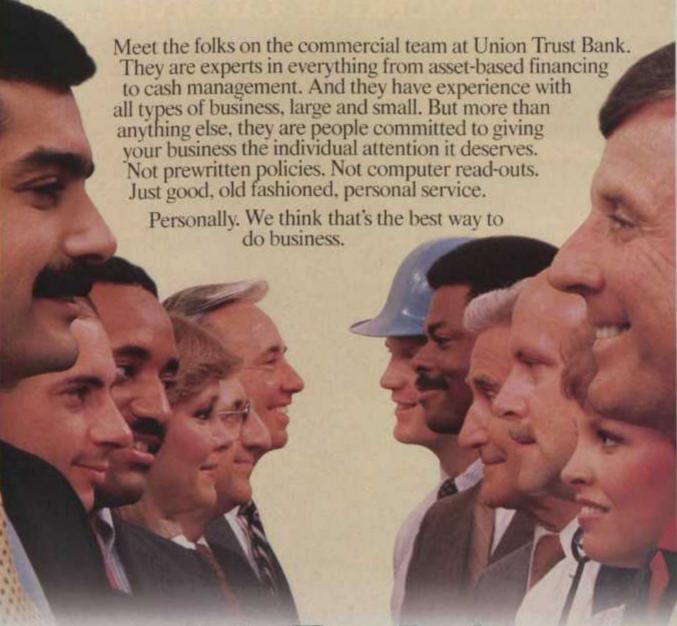
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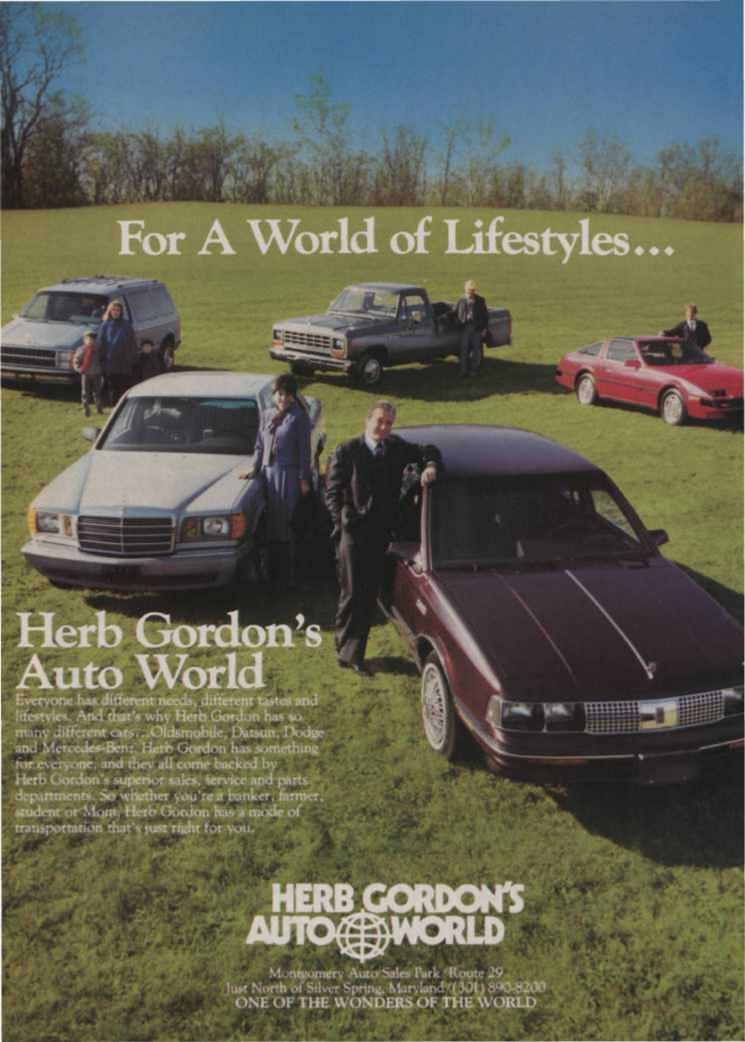
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SAYS THE chief executive officer of a newly public company: "It was truly a triumph for the company, the day the offering was completed. Suddenly we were in the big time. We had reached an all-important milestone in our company's growth. But what we didn't realize-what no accountant, underwriter or attorney could possibly impart to us-was what life in the public fishbowl actually meant.

"No longer did I just have my family and business associates to worry about. No longer could I conduct the business just as I saw fit. I had to worry about some widow in Topeka and some young couple in Vancouver-all strangers to me, but suddenly now part of my new

shareholder family."

This CEO, like hundreds of others whose companies also have gone public in the last few years, found that the transition from private to public ownership involves far more than pushing a series of lengthy legal documents through the Securities and Exchange Commission.

To some corporate presidents, going public was the most traumatic experience in their business lives. To others, the period following the public offering was more trying than the

process of going public.

In the words of one CEO: "It's a new mind-set, a different way of viewing yourself. Instead of looking at the company from just the inside out, you're constantly concerned about how you look from the outside in."

And, according to one succinct president: "It's like constantly being under a publicly held microscope."

In the first eight months of 1984, according to the Securities Data Company, 262 companies went public for the first time-raising an estimated \$2.52 billion. Though these numbers are down dramatically from the same period in 1983, when a record 374 companies successfully raised \$7.7 billion in the marketplace, they are an impressive gain over the activity of a decade earlier, when a mere 100 companies raised \$300 million over a full year.

The increased number of companies going public has meant that they must compete more strenuously for the public's investment dollars, as well as the public's attention. Besides costs, legal regulations, compliance procedures and constant pressure to perform and market the stock, a company must conduct itself, think about itself and talk about

ART STEVENS is president of Lobsenz-Stevens, Inc., a New York public relations firm.

#### **A Plunge Into The Fishbowl**

Going public is heady for a CEO, but you have to learn that it's not your company any more.

By Art Stevens



York public relations firm, surveyed 1,000 CEOs of companies that had gone public in the past five years about the difficulties, rewards and challenges of the transition from private to public.

Of the 1,000 surveys, nearly 200 were returned. Respondents were asked not to sign the questionnaires in order to guarantee anonymity to all partici-

Their observations-in addition to those of professionals who work closely with companies going public for the first time-can be valuable to any company considering going public one day. The survey indicates that the most important consideration, once the decision to go public has been made, is to choose the right investment banker.

The investment banker plays many roles-salesman, adviser, underwriter-and it is crucial for CEOs to know what to expect Nearly half of the CEOs surveyed were disappointed in the performance of the investment bankers, and 44 percent said they would not use the same firm again. Because the investment banker plays such a crucial role in the offering's success, companies obviously should shop around and interview a wide variety of investment banking firms, both national and regional. CEOs should determine precisely the services the underwriter will provide and the extent to which it will support a client after the offering is made. In the survey, 43 percent of the CEOs complained their underwriters were not at all involved in the company once the stock started trading.

Investment banking firms traditionally advise companies on all important aspects of the offering, such as pricing, size of the offering and timing. In addition, the investment banker offers suggestions on how the company can present its current capital structure and organization to the investment community.

After the company files a preliminary prospectus with the SEC, the investment banker forms a syndicate of underwriters and conducts a regional or national marketing program to create interest in the stock.

Companies should be wary of investment banking firms that appear to promise too much in services.

Says William P. Miller, a veteran underwriter: "It's not unusual for overzealous underwriters, in their quest to woo new clients, to give the impres-

sion that they will provide more in services than they are actually capable of providing. Underwriting is a terribly competitive business. And rather than promise to cut commission costs, they may tend to promise more in activities."

On the other hand, investment banking firms can—and often do—give companies strong marketing support well
after the initial offering, in order to
maintain a lively interest in the stock.
This support can range from assistance
in making corporate presentations before securities analysts and in producing the annual report to advice on raising future capital for growth.

"I'd advise every newly public company to demand regular attention, advice and marketing support from its underwriter well after the offering," says Richard Thaler, a vice president of Shearson Lehman/American Express. "Companies should never feel that their underwriters are abandoning them.

"But if CEOs sense this happening not just in service, but in attitude—then they must demand some hand-holding. Underwriters by their nature can play an extremely important role in a company's growth. And companies should make use of all the services a good investment banking firm can provide."

VEN WITH A GOOD underwriter, a company needs to know how well it will handle its loss of autonomy. It will have to answer to a board of directors, shareholders, analysts, stockbrokers and the investing public at large.



When a company decides to go public, it has to put on a good public face as it discloses once-private information.

Says Paul Roth, senior partner at the New York law firm of Schulte Roth & Zabel: "Suddenly, every major move the CEO makes must get the approval of a board of directors, many of whom may be very new to the company. The CEO is used to acting autonomously. Now he must contend with board authorization every significant step along the way."

Erwin Kohn, district partner of Fox & Company, a national public accounting firm, says CEOs must act to gain shareholders' approval.

"How effectively and how fast a CEO of a newly public company can learn to live in the public fishbowl depends on his ability to recognize that it is no longer his business any more, but the public's," says Kohn.

CEOs should, therefore, prepare themselves before going public for a vast range of new communications responsibilities. Management, after all, will have to disclose information that was once private. For the first time, skeletons must be taken out of the closet. The company must put on a good public face at the same time it reveals its best-kept secrets.

One of the biggest challenges a CEO will have, then, is learning how to tell the company story in a way that will favorably influence the trading activity of the stock. He must be well aware that the stock's price depends on the public's perceptions about the company's growth potential. He must know how to present a growth plan that im-

presses the professional investment community. And he must learn how to sell the story at the right time to the right audiences.

It is not surprising that increasing numbers of newly public companies are retaining financial public relations counsel. More than 44 percent of the companies surveyed hired PR firms soon after their initial offerings. The most important contributions financial relations firms make, according to the survey, are familiarizing the financial community with the company's story, obtaining favorable publicity and generally helping to broaden the shareholder base.

Seven out of 10 respondents believe a regular financial communications program can have a "significant" impact on the price of stock.

Obviously, one of the most critical factors CEOs

will face is preparing the company for the costs involved in going public.

In the survey, many CEOs said going public was far more costly than originally anticipated. Fees for printing, attorneys, accountants and filing are around \$250,000. Then there are the underwriters' commissions—typically, 7 to 8 percent of the offering price.

On top of all that, the legal and administrative burdens imposed by SEC regulations and compliance procedures involve, says one CEO, "a never-ending array of paper work."

But beyond the costs, the changed perspectives and the new administrative burdens, the overriding concern for CEOs will be how the public will judge the company's growth potential and how the market will value its stock.

Happily, the vast majority of newly public companies are pleased that they have made the transition. An overwhelming 93 percent of those surveyed said that—if given the choice—they would go public all over again.

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Howard Raiffa has been at Harvard since 1957 and holds the Frank P. Ramsey Chair in Managerial Economics, jointly sponsored by the Graduate School of Business Administration and the Department of Economics. He is a frequent consultant to industry. As one of the outstanding pioneers of decision analysis, Dr. Raiffa has authored a number of major books on the subject.

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#### **Almost Picture-Perfect Investing**

By Ray Brady

F YOU SOMETIMES get the impression that many of your financial holdings are lifeless, boring things-at least in terms of increases in their value—then take a look at what has happened to collectibles over the past year alone.

A painting, J.M.W. Turner's "Seascape: Folkestone," broke every record in the book, bringing a selling price of more than \$10 million in a sale at Sothe-

by's, the big London auction

house.

If Turner seems a little rich for your investing tastes. then consider "Wheels," a photo of a steam engine taken in 1939 by Charles Sheeler. It changed hands for a record \$67,100 in New York.

Or, getting a bit more down to earth, take a 1957 Chevrolet Bel Air convertible. Collectors admire this model, and one such car, with fuel injection, sold for \$30,000 in Denver.

All this is coming as a major surprise to the experts, who predicted that once inflation eased, the craze for collectibles would cool off. and so would the prices. And it is true that since the recession began, many executives have been stuck with collectibles-stamps, gold and silver coins-worth much less than what was paid for them in the days of high inflation.

Still, when Robert Salomon-of the Wall Street firm of Salomon Brothers-released his annual survey of fast-rising investments, old masters Rubens, Rembrandt and company were No. 1, at

14.3 percent, easily beating out foreign currencies, farmland and other investments.

But before you go rushing off to buy Mickey Mouse toys or Chinese porcelain, there is one point to bear in mind: The old masters went shooting up in value partly because of the strength of the U.S. dollar. When the dollar rose, shrewd collectors jetted over to Europe

and bought those paintings at what were still attractive prices-thanks to the difference in currencies.

And as Salomon himself points out: "Most collectibles are not really investments anyway. They're conspicuous consumption of things that sometimes rise in value."

Sour grapes might be expected from a man whose business deals in stocks

Swann Galleries' George Lowry says this rare edition of Audubon's Birds of America sells for \$10,000 to \$15,000.

(No. 10 on his list) and bonds (No. 14). But even those who are in the collectibles business advise the neophyte investor to be careful. Whether it is art or autos, buy only something you truly like-don't buy on blind speculation. That way, if you are wrong on the financial outlook for Modigliani or Andy Warhol, you will at least have something you enjoy.

Buy the best you can, because in collecting as in manufacturing, quality counts. One art dealer warns: "If you buy a second-rate painting, it will never become first-rate-and you'll never get a first-rate price for it.

To be worth a top price, incidentally, the collectible should be in mint condition. Don't use that mid-19th century paperweight, or lend that first edition of Moby-Dick to a friend who has never read it.

Most important of all, be careful

about many of those ads that promise "collector's editions" of medals, plates, sculpture and similar items. They can rise in value only if they are comparatively scarce, so find out exactly how many are being produced before you buy, I will never forget a silver dealer telling me about all the "collectible medals" customers were bringing in to his shop. So many had been made that the dealer simply paid what they were worth in raw silver (which wasn't all that much), then had them melted down.

As to where executive collectors might start investing now, options vary (often depending on what wares an expert is dealing in). Among some of the suggestions: pre-Columbian, Egyptian and African art.

George S. Lowry, of Swann Galleries in New York, the biggest rare book auctioneer in the United States, thinks that his wares are a good buy. "A crummy painting sells for \$400,000," he says, but you can still buy a first edition of Tom Sawyer for \$2,000 to \$5,000.

The major point to remember, however, is this: Though the headlines may trumpet the sale of a pre-Impressionist Corot for \$3.8 million, most collectibles-no matter in what field-are bringing roughly the same prices as they did two or three years

Wall Street economist A. Gary Shilling has long held that when inflation is low, the pendulum swings from collectibles to stocks and bonds as good investments because, as he puts it, "the playing field is sloped in our favor."

RAY BRADY is the business correspondent for CBS News.

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#### You Can Be Sure . . . If It's Danforth

Westinghouse's CEO aims high, whether it's in robots or llamas.

By Michael Barrier

Por Douglas D. Danforth, 1986 will be a very important year. It will be the 100th anniversary of Westinghouse Electric Corporation, Danforth's employer for the last three decades. And it will be his last full year as Westinghouse's chairman and chief executive officer; he will step down in October, 1987, after he reaches the mandatory retirement age of 65.

With any luck, it will also be the year when he starts turning a profit on his sidelines: llamas

and Christmas trees.

If success in those enterprises is still in doubt, Danforth is doing his best to see that Westinghouse's success is not.

While preserving its traditional strength as a major manufacturer of electrical equipment for industry, Westinghouse's managers must try to guide their diversified company into a future that promises to be dominated, even more than today, by service industries and rapidly changing technologies.

A few weeks before he became CEO on Dec. 1, 1983, Danforth committed himself to some measures of how well management meets that challenge. In a talk to 200 senior Westinghouse executives, he laid down specific goals for the company's anniversary year.

He wants record earnings in 1986. He wants sales that year to be growing several percentage points faster than the gross

national product. He wants Westinghouse's operating profits to rise from the recent 5 or 6 percent on sales to 8 or 9 percent.

"I stuck my neck out 18 miles," Danforth says. "And I remind the management committee that I stuck our necks out." But, he adds, "I think we have a very high probability of reaching the goals that we established. They weren't pulled out of a hat."

The results for 1984 suggest that Westinghouse is on course toward Dan-



forth's targets. Earnings—essentially flat for the previous three years—rose to a record \$536 million on record sales of \$10.26 billion; profits were up more than 19 percent over 1983, and sales were up almost 8 percent.

It is not unusual for a new CEO to commit himself and his company to ambitious goals at the start of his tenure. But Danforth was already 61 when he became CEO and, given Westinghouse's retirement policy, could expect to spend only four years in the job. That is not much time to reshape a multibillion-dollar corporation.

Danforth's case is different, though. As chief operating officer since 1978, he had already reshaped the company by the time he moved into the CEO's suite in the Westinghouse Building at Pittsburgh. The great corporate engine that he now drives is one that in large measure he designed.

At the start of his business career, Danforth was concerned with engineering of a more modest kind. He was trained as a mechanical engineer at Syracuse University, in his upstate New York hometown. He had grown up working part time in his father's die casting business, and this gave him, he says, "an early understanding of machinery and manufacturing."

"I was fortunate," he says, "in that as a very young guy I knew exactly what I wanted to do. Engineering was what I wanted to do, and there was no question about that."

But he was interested in more than being an engineer. When he was hired by General Electric in 1947, he went into its international division because, he says, "I wanted to live and work overseas at least part of my life."

In 1949 GE sent him to Mexico as general manager of its operations there. He lived abroad for much of the next 12 years, working first for GE and then,

starting in 1955, for Westinghouse. Mostly he worked in Latin America—Mexico, Brazil, Argentina. Even in the United States, Danforth and his wife spoke mostly Spanish at home, so that their four children would pick up the language.

Now, he says, "the kids are all gone, but when Janet and I are together we speak as much Spanish as we do En-

giish, just by habit."

In 1961 Westinghouse transferred
Danforth from Mexico (where he was

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President Reagan and former President Gerald Ford Joined Danforth last fall at the dedication of a Westinghouse Furniture Systems facility in Grand Rapids, Mich.

managing the company's Mexican affiliate) to corporate headquarters in Pittsburgh, as assistant to the vice president for manufacturing. A string of promotions followed, until, in 1974, he became president of what was then called the Industry Products Company; it was made up largely of Westinghouse's core electrical equipment businesses.

Along the way, Danforth became familiar with most of Westinghouse's operations. One reason he was attracted to Westinghouse in the first place, he says, was the opportunity it offered to run the Mexican affiliate, which was "a mini-Westinghouse—we made transformers, switch gear, motors, watthour meters, a whole host of products. We also sold power plants."

Later, he was briefly in charge of Westinghouse's consumer products; eventually he had a strong voice in the company's 1975 decision to get out of the home appliance business. (The words "You can be sure... if it's Westinghouse," once so familiar in advertising for refrigerators, dishwashers and television sets, have been revived as a motto for the company as a whole.)

In 1978, Danforth assumed the newly

created job of vice chairman and chief operating officer, under Robert E. Kirby. What Kirby calls Danforth's "extraordinarily broad experience" made him the natural candidate for the job; but the job was created not so much to take advantage of Danforth's experience as to give Kirby some badly needed help.

Westinghouse was then in one of the toughest fights of its life. It was the target of lawsuits brought by 27 electric utilities. Billions of dollars—and possibly Westinghouse's survival—were at stake.

The company had committed itself, under long-term contracts, to provide uranium to the utilities' nuclear power plants—but at prices that had been outstripped by the market price for uranium. To fulfill the contracts, Westinghouse would have had to buy 65 million pounds of uranium on the open market, at a price about four times greater than what it would have received from the utilities. When Westinghouse notified the utilities in 1975 that it was no longer bound by the contracts, the utilities sued.

Danforth was made chief operating

officer, Kirby says, "mainly to make sure that I could be available at any instant if I had to go somewhere to be involved with the uranium situation. The day-to-day operations of the corporation were totally in his hands." (Most of the suits were settled out of court in the late 1970s, at a pretax cost to Westinghouse of more than \$900 million.)

By 1981 it had become clear that Danforth would succeed Kirby, and Kirby began thinking about "as smooth as possible a transition. I had Doug and a group look at what the company ought to look like after I retired. When they came up with a plan, we put it into effect nine months before I left, so he wouldn't be faced with a reorganization."

Danforth says of Kirby that "he was a very good delegator. I felt absolutely no constraint at all, during my time as vice chairman, to do whatever I wanted to do to begin shaping the corporation."

The February, 1983, reorganization thus says a great deal about where Danforth wants Westinghouse to go in the new few years—and it says a lot about his management style, too.

He realigned Westinghouse's operations into 26 business units, which were parceled out, along broad market lines, to four large groups. One such group, called industries and international, embraces motors, switches, controls and other electrical equipment—the industrial products that have been the foundation of Westinghouse's success.

The industries and international group lost \$19.3 million in 1983—the only Westinghouse group to show a loss that year—although it is now benefiting from the upsurge in capital spending and approached breakeven in 1984. The group's "standardized, market-driven products sold on a world scale," as Westinghouse describes them, have suffered from foreign competition and the strong dollar.

Increasingly, Danforth says, Westinghouse is meeting such competition by assigning "world charters" for industrial products to individual Westinghouse plants in many countries.

This shift within manufacturing has been dwarfed by a shift within Westinghouse as a whole. "In the last 10 years," Danforth says, "we have made a rather major transition from manufacturing to services. Over half our revenues are now from services." In the other three groups, the emphasis is, accordingly, on services and high technology.

An energy and advanced technology group embraces defense electronics, industrial robots and nuclear power; another group runs television stations and cable systems—and Muzak, the music service heard in thousands of stores, elevators and waiting rooms; and the commercial group includes all of Westinghouse's "stand-alone" businesses, from soft drinks (Westinghouse is the nation's largest bottler of 7-Up) to overthe-road refrigeration.

The 26 business units within these four groups have been given considerable autonomy, and Danforth speaks of giving them more. At the same time, the top management at Westinghouse has become more accessible, he says: "If someone has a question, they don't have to wait a week to sit down and talk about it."

Danforth is, he says, "an involved guy—I travel a lot, I visit the divisions. It raises my comfort level if I'm very well acquainted with what's going on when I'm asked to approve a major acquisition or a major investment."

He has not named anyone to his old job of chief operating officer. "I'd just as soon not have a person in between me and other members of the management," he says.

Danforth's travels take him to all corners of the Westinghouse empire. Last summer, for instance, he visited Filmation, a Los Angeles cartoon studio that makes such popular children's television fare as "He-Man and the Masters of the Universe."

Associates say that Danforth is the kind of man who can learn a lot from such trips. "He's an old shoe," says Douglas Stark, who was Danforth's assistant more than 20 years ago and is now executive vice president of the commercial group. "He is very easy to communicate with, at all levels. You know he's not going to shoot you if he gets some bad news."

But, Stark adds, "as pleasant as he is, he demands performance, and he can be very, very tough if it's not forthcoming. Any number of general managers who worked for Doug Danforth have lost their jobs. Fortunately, he's never fired me, so I don't know if he does it with a smile on his face or not. But I've never seen him mean or nasty."

Keeping the lines of communication short—and open—is one way that Danforth tries to make sure his autonomous business units pull together. There are other bridges among the units: A central research laboratory and a productivity center funnel technological advances to all of Westinghouse's factories (more than 100 in the United States, plus 40 abroad).

The productivity center, Danforth says, is crucial to Westinghouse's goal of improving productivity at least 6 percent each year. "We haven't quite reached that, but we're getting close,"



Danforth raises ilamas on his farm south of Pittsburgh, selling them as pets and as pack animals. He also uses them as a drawing card for another crop: Christmas trees.

he says. Thanks largely to the productivity center, Westinghouse has reduced its inventories by \$300 million (out of a total of \$2 billion), with perhaps another \$700 million to comeeven as it has shortened delivery times.

Such efficiencies could be important to Westinghouse not only as a way to keep its core manufacturing operations competitive, but also as a hedge against possible disappointments on the high tech side of its corporate strategy.

DEFENSE, FOR EXAMPLE, now accounts for around 17 percent of sales (the company makes advanced radar systems, among other things), so Westinghouse could be affected by any slowdown in military spending. Westinghouse committed itself heavily to industrial robots through its purchase in 1983 of Unimation, a leading manufacturer of such machines—but its robotics division is still in the red.

Likewise, Westinghouse's broadcasting group has expanded from ownership of five television stations to ownership as well of 140 cable systems—but cable showed only a modest profit in 1984.

Danforth thinks that most such clouds will break up. He says of the two Unimation plants, for example, that "we bought them for the long haul." Westinghouse will offer, he says, not just freestanding robots but complete systems—often including robots—that will transform customers' plants into far more efficient operations.

Cable TV, too, will soon become a major money-maker for Westinghouse, Danforth says, because the company has quit bidding on new franchises and that means it will not have to keep pouring money into cable's very high start-up costs.

Danforth is noticeably more cautious in speaking about another business he heads: "It is, I think, going to be a very good venture. It's close to breaking even."

He is speaking of his herd of llamas—those gentle South American beasts related to the camel. He began raising this distinctive herd after deciding that his 25 head of cattle was simply too small-time.

Danforth has 45 llamas now, on his 120-acre farm 16 miles south of Pittsburgh, and he expects another two dozen calves this year. In addition to selling their wool to local spinning clubs, he sells llamas themselves.

"I've got a two-year waiting list of people who want them as pack animals—fishing groups, hunting groups, backpackers—and as pets," he says. "They make great pets. And there are people who want to start a herd for the wool."

Danforth has now found another use for his llamas—as a draw to help sell Christmas trees. He has about 40,000 trees planted on his farm. Last year, his farm manager ran just one small newspaper ad that said, in effect, "Come see the llamas and select your tree, and we'll cut it fresh for you."

"Hundreds of families came out with their kids to see the llamas," Danforth says. Thanks to the llamas, Danforth sold about 500 trees in 1984—a first step toward his goal of eventually selling 2,000 to 3,000 a year.

That is a lot of trees, but Douglas Danforth has never been a man to set small goals for himself or for the enterprises be heads.

#### **Bankers Think Acquisition**



N EW FINANCIAL services competition has the country's top banking executives searching for strategies to meet the challenge of nonbanking com-

"Banks are being attacked from all sides," says the head of a Southeastern bank. His answer came in a survey of chief executive officers of the nation's 2,235 largest commercial banks by the U.S. offices of Egon Zehnder International, a worldwide management consulting firm.

All of the 740 CEOs who responded to the survey have acquisition on their minds as a logical solution to the problem of competition from within and outside banking. As the CEO of an Eastern bank remarks: "Mergers and acquisitions represent our principal opportunity to change the competitive order while deregulation progresses." Another Eastern banking executive comments: "Survival is dependent on a well-designed merger and acquisition strategy."

More than half the CEOs say their institutions will probably acquire non-banking businesses in the next five years. Their preferred targets are insurance companies (72 percent) and real estate and mortgage-related firms (35 percent).

Almost 70 percent expect purchase of another bank within five years. At the same time, 25 percent say their instituRating nonbanking institutions as competitors, 93 percent of the respondents put Sears first, Merrill Lynch second and American Express third.

Within banking, the executives consider their neighboring peers as their most important competitors (86 percent), followed distantly by the large money center banks (59 percent). Thrift institutions (savings and loans and mutual savings banks) are also seen as competition for banks of all sizes.

Asked about their management priorities, the executives put asset/liability management and loan losses/risk exposure at the top of their lists. However, the 55 largest banks (controlling 45 percent of all U.S. commercial bank assets) place a much greater emphasis on the importance of interstate banking.

As they grapple with a host of new competitive and deregulatory forces, bank CEOs are beginning to look more to their boards of directors for advice. However, only 5 percent of the respondents say their boards of directors are absolutely critical contributors to their strategic success. In fact, 56 percent of the CEOs note that they have altered or plan to alter their boards to add members with "commitment and youth" and marketing savvy.

"We expect directors to bring diversification and business management ability, not personal wealth," says one Western bank executive. Other CEOs say they want "directors who are younger, more aggressive, more tuned to a high tech society," or "directors with a better national and even international overview."

Who, then, do bank CEOs consider their most valued business advisers on banking matters? More than 50 percent point to another officer in the bank; 33 percent consult a member of the board.

Fewer than half of the bankers (42 percent) maintain that they are completely confident that their successors are now on staff; 33 percent believe that they make the confident that they are confident to the confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident that their successors are now on staff; and confident the confident that the c

that they probably are not.

"Clearly, changes in the banking industry are having a 'trickle-down' effect which is changing the requirements for future senior executives," says Zehnder's Samuel H. Pettway, survey coordinator. "The results indicate coming upheaval in bank boardrooms and executive suites."

respondents said they head publicly held institutions. Of that number, a slight majority feel that their bank's stock is undervalued, with the shortfall between 21 percent and 50 percent. Only 7 percent claim that their shares are overvalued, with the premium under 20 percent in most cases. And 40 percent believe their stock prices are "about right."

When asked what legislative approaches to banking competition they favor, 40 percent of the bankers comment that they prefer phased-in nation-wide competition, while 34 percent vote for strictly regional competition. Only 8 percent want full nationwide competition now.

Citibank is considered the country's best-managed bank, followed by Morgan Guaranty and North Carolina-based Wachovia. Manufacturers Hanover and Bank of America, both of which appeared in the top five in a similar survey a year earlier, are no longer in the top 10.

Pittsburgh National Bank snared top honors in the East; Wachovia in the Southeast; National Bank of Detroit in the Midwest; Texas Commerce in the Southwest; and Security Pacific in the West.

Bankers also predicted which city in their region will show the most dynamic economic growth in the next decade. Boston is the premier selection in the East; Atlanta in the Southeast; Indianapolis in the Midwest; Dallas in the Southwest; and Denver in the West.

--- Mary-Margaret Wantuck

#### **Judging the Jurors**

THE LAWYERS "kept asking us for more. They were asking us questions we hadn't thought about or done research on, and we weren't prepared to answer." That is how Arthur H. Patterson, a psychology professor at Pennsylvania State University, describes the genesis of a business he started a year ago in State College, Pa.

The company is called Jury Analysts, Inc., "consultants to trial attorneys."

Patterson, 38, and his partner of 10 years, Nancy R. Chiswick, 39, had been running a two-person consulting practice in clinical and social psychology. Their clients were businesses, particularly advertising agencies, government agencies and lawyers. Patterson did jobs like surveys of social attitudes; Chiswick was the clinical specialist.

Sometimes Patterson was asked to testify in court about local public opinion to support a lawyer's attempt to have a trial moved to a different city. Chiswick also often testified, usually as an expert witness on whether a criminal defendant was competent to stand trial or whether a plaintiff in a damage suit had been psychologically harmed.

"Often the lawyers would want more," Patterson says. "They would ask questions like: 'How can I make the jury believe me?' 'What is credibility?' 'How should the defendant, or the plaintiff, behave to get the most favorable response from the jury?'"

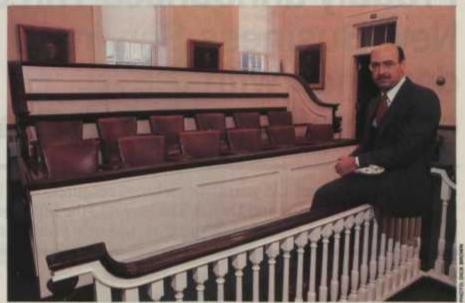
Patterson says he and his partner began to think: "We're professional psychologists; we're researchers; let's look at these issues, get into it, study what we can do to provide a service to [help

lawyers] try a case."

When the two partners began examining the possibilities, they found a market opening: There were psychologists who specialized in helping lawyers with jury selection, and there were large national companies (or departments of marketing firms) that provided such services to corporate clients at a stiff price. But there were no small firms with both wide expertise and modest overhead expenses.

"I decided with Nancy that we needed to form a specific consulting firm for trial attorneys," Patterson says. "We needed to form an entity so we'd have a standing and credibility with lawyers, and so we could get a place in the market."

They talked to colleagues at the university, at a hospital and at the private clinic Chiswick directs. Then they lined up a staff of professionals of diverse



Arthur H. Patterson runs a business which helps lawyers pick jurors for a trial. He studies attitudes, frames questions and evaluates jurors' responses.

skills, including psychologists, sociologists, a legal scholar, a statistician and a communications researcher—seven altogether.

All the associates had primary employment but were doing some consulting on the side. The new firm promised to bring them more cases. Staff members agreed to take cases henceforth only through the firm and to adhere to its fee schedule. The company would provide an office, secretarial services, billing and marketing.

The two equal shareholders, Patterson and Chiswick, remodeled an office, invested in office equipment, a letter-head, a personal computer and a new telephone system, and hired a secretary. To do the legal work on the incorporation, they used an attorney who had consulted Patterson on a murder case (even though the defendant was convicted and given a life sentence).

The partners prepared a brochure describing the new firm's services from "analysis of jury pool" to "preparation of voir dire questions" and "assistance in trial strategy development." The brochure explains that "characteristics of individual jurors will influence their perceptions of the issues and facts of the trial, thus affecting the verdict."

AFTER THE FIRST mailing, they were "swamped with business," Patterson says. The first year's billings totaled about \$50,000, from charges of \$500 to nearly \$15,000, and averaged about \$1,000 per case. After paying di-

rect expenses, the partners divided almost all the rest of the income among the professional staff, including themselves. The two owners recovered their investment but had little profit to show.

This year, Patterson says, "if things continue to grow at the rate they're growing, we expect to easily more than double the revenue," and with start-up costs already paid, profits will be a lot higher.

"I am primarily the person who goes to court for the firm," Patterson says. "The others contribute their different skills, but I am the jury psychologist." On a typical case he may do an opinion survey to determine public attitudes on issues important in the case. Then he will offer advice on which qualifications to look for in potential jurors, and he will sit in court with the attorney during jury selection to advise on questions to ask and how to evaluate answers.

Patterson says the firm has no immediate plans to sell stock but eventually may offer some shares to its associates. He also is considering an "off the wall" plan to franchise the service. Patterson does not advertise, because "it's not professional," but speaks to bar associations, distributes the brochure and relies on word of mouth among lawyers.

The number of inquiries and referrals, Patterson says, "is now growing exponentially. We never get credit when we win a case, and we always get the blame when we lose. Even so, we always get a good referral."

-Harry Bacas

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May 20, 1985 Baltimore, MD May 21, 1985 Philadelphia, PA May 22, 1985 Lancaster, PA May 23, 1985 Pittsburgh, PA

# Export Trading Companies: Setting The Sails



Wayne Stubbs: Exporting wood chips is tough.

NEWLY LAUNCHED export trading companies are still becalined in the trade doldrums. The dollar's high value and cash-poor trading partners continue to discourage American sales. But hope is strong that one day the new trading company program will give the United States the export muscle that Japan developed with its sogo shosha.

Those global trading companies have had a century to penetrate international and domestic markets. Last year, the top 16 of Japan's 6,000 export trading companies amassed sales of more than \$350 billion, more than one third of Japan's gross national product.

In 1982, mindful of Japan's success, Congress cleared the path for organizing similar entities in the American economy. Chiefly, it permitted banks to invest in trade ventures, boosted government assistance and removed antitrust restrictions prohibiting competitors from combining to export.

Export trading companies can take many forms. The central idea behind ETCs is to create a vehicle—often a consortium of companies with similar products, in the same geographical area or served by the same bank—to channel traditionally domestic goods and services into international markets.

The Commerce Department, chief proponent of ETCs, has conducted dozens of seminars, drawing thousands of business people, and has distributed many more thousands of how-to kits. Its office of export trading company affairs has advised businesses to do the necessary paper work now, to be ready when the trade winds pick up.

More than 50 ETCs, including 30

bank-backed companies, have been formed, according to a report by the weekly publication International Trade and Investment Letter. "But, so far," the report says, "reaction [to the new law] has been the creation of new institutions, not the conclusion of much new export business. The new firms are being put together, which takes time. Sales can be expected to follow over the next year, or two years."

In Georgia, Savannah Sales Corporation was formed by 12 lumber mills
whose wood chip by-products are needed in paper production. The company
began to establish a market in Scandinavia. But the strong dollar and aggressive Soviet wood chip exports to
Finland, Sweden and Norway have captured markets from the Georgians. As
Executive Vice President Wayne
Stubbs says, "Now we're all dressed up
with nowhere to go."

The Virginia Port Authority created VEXTRAC, a government ETC. It plans to help find markets for area companies and to advise them on transportation, financing and red tape. Other state and local agencies are closely studying the creation of ETCs as industry and trade promotion devices.

New York's Bankers Trust Company formed an ETC, but Steven Sohn, who heads the company, says it is too early yet to give a status report. Banks are anxious to give commercial customers new outlets for sales; at the same time, they see new profits for themselves.

"The beauty of ETCs," says George Muller, deputy director of the office of export trading company affairs, "is that they allow domestic competitors to share the costs of exporting, and they achieve economies of scale and minimize individual risk." The ETC law, he says, could generate more export activity from small and medium-sized companies that have rarely sold abroad.

In trade, says Commerce Department lawyer Eleanor Roberts Lewis, "the best defense is a good offense. We've got to get out there and sell."

#### **Boosting Farm Sales**

Economic expansion abroad should boost American farm exports in 1985, says the U.S. Foreign Agriculture Service. This is good news for the entire food and fiber chain. It means more business for the chemical, farm machinery and transportation industries, as well as farmers.

Long range, says Agriculture Department trade analyst Clark Edwards, American agribusiness must better adjust to world markets. Only a decade ago, 20 percent of the country's acreage produced crops for sale abroad. By last year the figure had risen to 40 percent. By the end of the century, as much as half of the United States' arable land will be planted for the global market.

This year prospects are best for farm sales to Japan and other Far Eastern countries, where national economies are growing with little inflation and low foreign debt. Only modest growth is expected in the once-lucrative Middle East market, where oil revenues are down.

High unemployment in Europe and Latin America, say government trade forecasters, will probably dampen export opportunities there for American agriculture.

Overall, though, the government says the farm economy can expect "durable growth."

Domestic food consumption will increase less than 1 percent annually over the next several decades, says Edwards. This means any appreciable expansion in food production must come from foreign sales.

It will be a tough market, Edwards says, and an unpredictable one, as America faces increased competition from foreign suppliers. "Ways will have to be found to expand exports, accommodate the downtrend in world food prices and cope with short-term fluctuations in prices and export levels as U.S. farmers turn more to international markets," he says.

-Henry Eason

#### Those IRS Vehicle Rules: They'll Drive You Mad

By Peter A. Holmes



Rep. Beryl Anthony speaks to a group of taxpayers at the U.S. Chamber of Commerce: IRS auto reporting rules "will result in forgery or aggravate the average citizen."

THE OWNER of an air conditioning service company in Louisiana figured it could cost him more than \$24,000 a year to prove to the Internal Revenue Service that his six refrigeration trucks are used for business purposes.

One computer products company executive estimated that the amount of paper his sales staff would consume in a year to qualify the company's fleet of automobiles for a tax deduction—noting each user, date, place of use, time, distance and the purpose of each business trip—could fill a rail car.

And the president of a Wisconsin metal products company says the firm's secretary has enough to do without filling out the forms the revenuers demand because he uses the company car to drive home from work at night.

These complaints are typical of those found in thousands of letters that began inundating Washington late last year, after word got around about new recordkeeping requirements Congress passed last spring in the name of "tax reform."

Taxpayers' ire is aimed mostly at a requirement that "adequate contemporaneous records" be kept in order to substantiate two of the most frequently used business deductions—the use of personal property to earn income and the personal use of company property.

Cars, trucks and other kinds of per-

sonal property (except real property) used for business, entertaining business clients and personal pleasure (computers, airplanes and boats, for example) are covered by the new law.

An outpouring of letters to Congress and IRS Commissioner Roscoe L. Egger, Jr., was set off when legions of bookkeepers, accountants and income tax return preparers told their clients about the new recordkeeping chores.

In late January, faced with an apparent erosion of support for voluntary compliance with the tax code, the IRS backed off and agreed to modify what some say are the more obnoxious of its recordkeeping regulations.

The announcement came days after the start of a letter-writing campaign sparked by the U.S. Chamber of Commerce and a taxpayers' rally at its headquarters across Lafayette Park from the White House. "That was the straw that broke the camel's back," says Deborah L. Aiken, a Chamber tax policy expert.

Exceptions to the original recordkeeping rules now apply in four situations:

- Operators of farm vehicles have the options of keeping track of nonbusiness use only or keeping no records and assuming the vehicle is used for business 80 percent of the time.
- No records are needed for company vehicles that are not used for any

personal driving except, for example, to go to lunch.

- No records are needed for company cars whose only personal use is by employes driving to and from work, provided that employers account for the value of that use each work day. (Employers are required to withhold 20 percent of the cash value of this benefit each quarter.)
- Taxpayers who spend most of their day behind the wheel on service or sales calls can qualify for a deduction by keeping track of just their personal trips, or they may keep no records and assume that the car is used for business 70 percent of the time (80 percent of the time for trucks or commercialuse vehicles).

Single entries for periods of uninterrupted business use or for an extended trip away from home will be permitted, says an IRS spokesman.

Rachelle B. Bernstein, the Chamber's tax policy manager, says of the newly revised regulations: "They go a long way, but not far enough, toward eliminating the paper work burden. We want total repeal of the requirement for contemporaneous records."

DESPITE THE IRS changes, says tax expert Aiken, "there are still problems all over the place." She points out:

 The rule changes do not provide an adequate definition of what constitutes "sales and services" for purposes of recordkeeping requirements.

 The revisions do not deal with use of computers or airplanes, the latter used extensively by business people in the West and Alaska.

 The change on farm vehicles does not apply to automobiles.

 Business people not wanting to settle for the assumption of 80 percent business use in the absence of detailed records would still have to maintain such records to prove higher use.

 The revised rule "sets one type of business against another" by failing to recognize that people doing very similar jobs might have sharply different patterns of business use of vehicles.

If the law were repealed, the standard of proof would revert to the previous requirement that taxpayers be able to produce "adequate" proof of the claim of business use of a vehicle.

The Chamber is urging that, after repeal, Congress' taxwriting committees take a broad look at the issue, first determining whether there has been a problem with taxpayer compliance on the type of business deductions involved in the controversy.

If there is a problem, says Aiken, the next step should be to seek ways to

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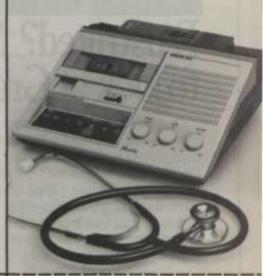
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resolve it without getting into the type of recordkeeping requirements that sparked the recent outcry. "Nobody should have to keep that kind of detailed records," she says.

Support for repeal is growing in Congress. More than 70 House members have cosponsored legislation introduced by Rep. Beryl F. Anthony, Jr. (D-Ark.), a member of the tax-writing Ways and Means Committee. The current law, says Anthony, "will result in increased forgery or [will] aggravate the average citizen to the point where he will not take advantage of the credit or deduction to which he is entitled."

Anthony hopes Ways and Means Committee Chairman Dan Rostenkowski (D-III.) will schedule hearings on the measure this spring.

Sen. John Heinz (R-Pa.) has rounded up 26 Senate cosponsors for legislation similar to the House bill.

AS COULD BE expected, the rules are a mixed blessing for companies that make it their business to manage the blizzard of paper work they generate.

Day-Timers, Inc., an Allentown, Pa., company that sells expense logs through the mail, says orders for its auto mileage expense records "have far exceeded our expectations." So much so that the company cannot make the wallets the logs come in fast enough to meet the demand.

Coopers & Lybrand, the national accounting and tax firm that designed the Day-Timers logs, says the auto record-keeping rules have generated more queries than any tax issue since the interest and dividend withholding provision of the 1982 tax bill. That law was repealed after a concerted grass-roots lobbying effort by banks, savings and loans and other financial institutions, who objected to needless paper work.

Then, as now, the paper work is defended as an unfortunate result of necessary efforts to tighten compliance with the tax code.

"The revenue the government is getting, compared with the cost, is not worth it," says Emil Sunley, a partner at Deloitte Haskins & Sells, a major accounting firm. He says the legislative history of the bill reveals that Congress knew what it was doing when it added the recordkeeping section without significant public comment. But, faced with the public outcry, "they will pretend they didn't understand the issue," Sunley says.

Robert Brown, a partner with the accounting firm of Peat, Marwick, Mitchell & Company, says that most of the additional paper work burden will fall on companies that provide cars to their employes. They will be responsible for making sure records are maintained or else face the loss of important tax deductions.

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#### **Putting Hot New Ideas Under A Cold Shower**

In MIT forums, entrepreneurs get expert adviceand sometimes money.

A business plan presented by Louise Wiener (above)

at a Washington forum is critiqued by Carolyn Schlipf (below left), Wendie Wachtel and Meryle Price.

T WAS NOT an easy night for Louise W. Wiener. She went before a panel of experts, with an audience of 150 looking on, for guidance on how to get her four-year-old company through a critical period.

Wiener is president of Cultural Services, Inc., a Bethesda, Md., firm that has established a national data base of arts and sports events and facilities. The idea is to supply information, such as whether special rates are available or how much dining capacity exists, that will help convention planners and high-volume travel agents work out events for groups.

Cultural Services plans to offer information both electronically and in print. Its first major effort is an \$85 directo-

ry, Arts & Sports USA.

When Wiener went before the experts, at a gathering in Washington, the directory had been on sale less than a month, \$750,000 in capital was gone, and she needed \$250,000 to survive until pending contracts began paying off six months down the line.

The money, she said, would put "greater marketing muscle" into the operation and enable her to hire a staff to fill the contracts.

Her presentation got a frigid recep-

One panelist asked bluntly about the directory: "If I were a travel agent, why would I want it? Telling my client what the hours are at a museum doesn't make me any money." Wiener was also criticized heavily by both panel and audience members for lack of market research.

"It was a grueling experience," she said later of her appearance, adding that she had learned more about making an effective presentation than about dealing with business problems.

Wiener had taken part in an innovative program for entrepreneurs that is



gaining increasing attention across the

It was launched by a group of Massachusetts Institute of Technology alumni, and it is called the MIT Enterprise Forum. Participants include entrepreneurs and people who can help themventure capitalists, bankers, accountants, lawyers and specialists in various phases of running a business.

HE FOUNDING alumni recognized that many high technology entrepreneurs needed guidance in business fundamentals. Too many people were coming out of MIT well-grounded in technology but weak in the skills needed to start and manage a business.

The solution: a monthly meeting in which the growth-oriented entrepreneurs would discuss what they were doing and what they hoped to accomplish. A panel of experts would then critique the presentation.

Forums are open to the public so that others interested in entrepreneurial problem-solving can learn along with the presenters, whose ranks have been expanded beyond the high tech area.

The first forum began functioning in MIT's hometown, Cambridge, Mass., in 1978. It quickly won a following, and word spread through the MIT alumni network. Forums were established in Washington, Baltimore, New York and Chicago.

Linda Wolfson of the Enterprise Forum's national office says Miami, Houston, Seattle and Los Angeles were added last year. Forums were started this year in Philadelphia and Denver.

Though some entrepreneurs going before the panels can, like Wiener, find them grueling, others find the results heartening.

The presenters of a second case on the evening Wiener appeared were in the latter category. They were from PENTAD Corporation, a Woodstock, Va., firm that develops and manufactures new products for the handicapped, disabled and elderly.

PENTAD used a team of presenters headed by its president, James E.



Forum audiences, which may include venture capitalists, also have a chance to question entrepreneurs.

Brock. The team had raised \$300,000 in cash and in-kind services and was now seeking \$800,000 in equity financing for research and development and to gear up for production. The presentation included a demonstration of several products, including PENTAD's Sonar Flashlight for the blind, which measures the distance to the nearest object and tells the user that measurement, in English, through an earphone.

The panelists—a venture capitalist, a purchaser for a hospital and the director of rehabilitation services for a private agency that aids the blind—were tough in their comments on PENTAD. They challenged the rapid growth that was projected and urged the company to lower its prices so that a user would not have to seek a sponsor to buy its products (the flashlight is \$500).

PENTAD's team found the comments helpful, especially some marketing ideas suggested by the hospital purchaser.

But best of all, Brock says, "there were about a half-dozen potential fund-

### **Cost of Criticism**

Although the public may attend an MIT Enterprise Forum for free, an entrepreneur who makes a presentation must pay \$200.

Putting money on the line helps assure that the presenter will take the experience seriously and prepare for it adequately, says Cyril W. Draffin, Jr., chairman of the Washington-Baltimore forum.

Each presenting company is given a tape of the proceedings, plus copies of evaluation sheets filled out by members of the audience. A presenter must submit advance copies of the business plan for the panel's review.

Past presenters recommend that entrepreneurs attend a forum before making a presentation, so that they understand the procedure.

Write to: MIT Enterprise Forum, 77 Massachusetts Avenue, Cambridge, Mass. 02139, or call (617) 253-8240.

ing sources in the audience without our knowing in advance that any of them were going to be there." One of them was Health Communications Services, Inc., a Washington public holding company that has contracted to buy 40 percent of PENTAD (for "somewhat under \$1 million," says Brock) and make a public offering of its stock.

The possibility of exposure to venture capitalists is frequently the major reason a company wants to make a presentation, according to Cyril W. Draffin, Jr., chairman of the Washington-Baltimore MIT Enterprise Forum.

Entrepreneurs often think their only problem is lack of money, Draffin says. Feedback from a forum may indicate they need to solve some marketing or technology problems before anyone will want to invest in them.

"Probably the greatest benefit of the forums is to force the entrepreneurs to defend their concepts to a skeptical audience," says Draffin. "Frequently, they think they understand what they need to do but have in fact underestimated the challenges."

Another advantage, according to Leo Weiss, a business

developer who helped found the Washington-Baltimore group, is that it creates an opportunity for entrepreneurs to "network" with one another. In a sense, it creates an environment that emulates the interaction that goes on among entrepreneurs in high-activity areas like Silicon Valley.

One rumor floating around is that an audience can get so vicious in its criticism that a presenter may flee the stage. But Linda Wolfson says she has never seen that happen.

Despite the beating she took, Louise Wiener is positive, even cheerful, about her experience. She feels the criticism about lack of market research was unfounded—she cites 2½ years of prototype testing—but she admits that "the presentation on my part left a great deal to be desired."

Though insights on improving her presentation were not what she was looking for, she says, they "may be extremely important for the future."

She adds, "Not every experience you have in trying to build a business is a pleasant one. This is not the first or last one with some 'ouches' in it."

-Sharon Nelton

# Where I Stand

Key Washington decision makers will be informed of your views on these important business issues.

## Repeal Law On Records For Vehicle Use?

A 1984 law imposed heavy new recordkeeping requirements to support a taxpayer's claim that a motor vehicle was used primarily for business. Treasury Department rules to implement the law produced such an outcry from business people that the agency modified them. But the statutory authority for such use still exists, and opponents of the original, onerous record requirements say they could be revived at any time. Should the new law on vehicle records be repealed?

## 2 Adopt Comparable Worth?

The Civil Rights Act of 1964 forbids an employer from paying a woman less than a man if they perform the same job. Now advocates of an idea called "comparable worth" argue that people doing different work should be paid the same if their work is of comparable value to the employer. Critics say that if this approach were adopted, the marketplace would be supplanted by an inevitably subjective evaluation and jobs could be lost. Should the government set comparable worth standards?

# 3 Instruct Primarily In English?

For generations of immigrants, public education has speeded assimilation into U.S. culture. In recent years attempts to speed learning and preserve the ethnic heritage of some groups have led to a greater degree of native-language instruction. Now many are urging that federal programs for young immigrants encourage instruction in English to bring the young people into the mainstream. Should such instruction be required for all U.S. students?

Respond to the poll with the attached postage-paid card. Letters to the editor on these issues are welcome.

## Verdicts On Time, Growth, Health Data

Here is how readers repondded to the questions in the January issue's Where I Stand poll. Results of each monthly poll go to appropriate decision makers in the White House, Congress and the regulatory agencies.

	Yes	No	Undecided
Should daylight saving time be extended?	68.9%	29.5%	1.6%
2 Will your company's revenues grow 8 percent or more in 1985?	59.3	28.5	12.2
3 Should the government set up a health cost data clearinghouse?	21.1	71.9	7.0

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Barbara Adamek, 39, and Cathie Siemer, 41, launched the nanny service out of frustration. In 1981, the two working mothers (each has three children) faced the critical problem of providing quality child care while pursuing demanding careers, Adamek as an advertising agency production manager and Siemer as operations manager for a brokerage firm.

"We weren't satisfied with our children's being merely watched over by baby-sitters or maids, or being crowded into day-care centers," Selmer says. The frustration multiplied on days a sitter could not come. And then there were the inflexible day-care center schedules that meant a child had to be dropped off and picked up at specific times.

A dinner conversation with their husbands got around to the traditional British nanny. Within a week, the fledgling Nanny Pop-Ins business had been formed and was operating, on weekends and in the evenings, from Adamek's living room and Siemer's kitchen.

"We each put in \$1,000," Siemer says, "and a lot of hard work."

That work included finding qualified nannies. To be considered, a prospect had to demonstrate good health, a background in child-related fields and no less than a high school diploma. In addition, a nanny applicant had to survive scrutiny of the last 10 years of her business and personal life.

"Nanny Pop-Ins spread through Atlanta by word-ofmouth," Adamek says.

Says Siemer: "Our gross revenue that first year was \$29,000. In 1982 we grossed \$78,000, in 1983 it went up to \$200,000, and we think 1984 was close to \$750,000."

Nanny Pop-Ins in Atlanta now has 3,000 repeat clients. It has 250 nannies on its roster, 75 percent of them college graduates.

The nannies are employes of Nanny Pop-Ins. Clients need not concern themselves with paying the nannies, deducting Social Security, providing carfare or any of the other costs normally associated with hiring a baby-sitter or maid or housekeeper.

"Our company is responsible for a substitute nanny if the permanent nanny must be away," Adamek says, "and we handle all the scheduling, paying the nanny, bonding and insuring her, and settling any crisis that might occur while the parents are away." Cost of a nanny is \$250 for a 40-hour week, with additional hours at \$5.50 each.

That rate is higher than usual for child-care services, but, as Siemer points out, "our nannies are not traditional baby-sitters. They are more surrogate parents and educators.

"Children are given a preschool environment in their own homes and carpooled to out-of-home activities. Some are given academic instruction. In effect, the schedule a nanny fulfills is determined by the parents' needs even if child care is required overnight."

To match a nanny with a home, Adamek and Siemer interview prospective clients first. Then the nanny is chosen. Nanny and clients meet, and they must agree they are a good fit.

Nannies undergo an orientation session and must attend scheduled seminars by Nanny Pop-Ins. They earn between \$9,000 and \$15,000 a year.

Most nannies are between 22 and 49 years old, but "we do have some 18-year-olds and a 78-year-old who is absolutely fantastic," Siemer says. Their charges range in age from 3 months to 18 years.

As for male nannies, she says, "we have had only two. There seems to be a stigma about men caring for children."

Nannies are permitted to work other jobs, and they arrange to take Nanny Pop-Ins' jobs as part-time work.

To keep up with their flourishing business, Adamek and Siemer left their jobs and are now franchising Nanny Pop-Ins under the name NPI Franchise Corporation. The first franchise was sold last September in the Dallas-Fort Worth area, and three are now in operation there.

A franchise costs between \$15,000 and \$25,000. A royalty, which can go as high as 8 percent, is paid the parent company.

Last year Adamek, the corporation's president, and Siemer, its secretary-treasurer, each took out \$15,000 as their salaries. But they are looking forward to getting a raise. They expect to take the company public this year and, says Siemer, that should lead to their drawing salaries in the \$75,000-\$100,000 range.

-Del Marth

## My Son, The Entrepreneur

Psychiatrist John L. Schwartz looked around the room at a professional meeting on the East Coast eight years ago and estimated that 8 or 10 of the 200 doctors present were dozing. The program was so boring that Schwartz felt



like taking a snooze himself. He was disgusted. The weeklong meeting was expensive—tuition, food, housing, an airline ticket and thousands of dollars of "opportunity costs," the money lost when a doctor is not seeing patients.

Schwartz thought there ought to be a better way to provide the educational programs that psychiatrists need to keep up to date and, sometimes, retain their licenses. Why not do it himself?

Once home in Newport Beach, Calif., he began to plan a weekend seminar. He drew up a list of the best medical-school psychiatric teachers he could think of, invited them to teach at a meeting in his hometown and told them what he could pay, basing the fee on what psychiatrists in private practice were earning.

Then he went through an American Psychiatric Association directory to choose names of doctors who might be interested in attending a program in Southern California. Was someone with the same surname (a relative, perhaps) in practice nearby?

"It was a crazy marketing scheme, except it worked," says Schwartz. Of 4,000 or so psychiatrists who received his promotional letter, 150 came to that first meeting in 1978, and he made about \$15,000 on the event.

Schwartz was so excited about the potential of his scheme that he incorporated under the name Continuing Medical Education, Inc., and set up a second weekend meeting in Newport Beach. The event lost \$85,000.

"It became clear to me that I had to stop fooling around with this expensive hobby or I needed to learn an awful lot awfully fast," Schwartz says.

He hired "a fancy direct marketing consultant," whom he found to be of little value because the consultant had not worked with psychiatrists before. He considered going to Harvard Business School to study for an M.B.A. but decided that was not a very economical use of his time (his private practice rate is \$150 per 45 minutes, and his corporate consulting fees can reach

\$400 an hour). So he began to read voraciously about direct marketing and to experiment. He tested offers of money-back guarantees and premiums (such as an audiocassette learning tape if a psychiatrist registered for a meeting by a certain date) and found that these techniques improved the response. He changed the name of his meetings from "Psychiatric Symposium" to "Advanced Psychiatric Update" when testing showed the latter to increase the pull as much as 20 percent.

Has all this made CME a resounding financial success? Not yet. Schwartz is breaking even but is not yet paying himself a salary. With an anticipated gross of \$1.5 million and a schedule of eight cities (from

Maui, Hawaii, to New Orleans), he is sure he is going to turn the corner this year.

He is still seeing patients 25 hours a week in his office in Santa Ana, and he is also psychiatrist in chief for United Western Medical Centers, a chain of three hospitals in Orange County.

But his taste for business—and for educating his peers—led him into a limited partnership in a San Francisco firm, American Medical Reports, which publishes newsletters and magazines for physicians under the leadership of James E. Sinkinson.

Sinkinson and Schwartz formed another company and, in October, 1984,

brought out *Physician's Marketing*, a newsletter with a \$197 annual subscription tag and nearly 900 subscribers.

And in January, on his own, Schwartz launched The Psychiatric Times, a monthly newspaper. He thinks it is a practical alternative for the country's 37,000 psychiatrists because it is not as academic as the publications they usually receive.

After all, Schwartz says to demonstrate his kinship with his audience, "I am just a poor, sweaty practicing psychiatrist."

-Sharon Nelton

## A Future Built On Obsolescence



James Fri (left) and Jimmy Glover bucked the electronic revolution; they manufacture switches that are outmoded but still profitable.

"We do not see any end to the need for this equipment," says Jimmy Glover, president of a small company that manufactures outmoded telephone switching devices.

The company, Com Pro, Inc., of Collierville, Tenn., 20 miles east of Memphis, sold \$1 million worth of switches last year and expects to double that figure this year. Com Pro makes bidirectional electromechanical step switches, used by the thousands in telephone exchanges to route calls from one line to another.

Its customers are telephone operating companies in the United States and abroad (where it did 40 percent of its business last year).

Since the 1950s, electronic switches and computer systems with no moving parts have been replacing electromechanical switches. So the market is shrinking—but Com Pro's sales are going up because the company is taking over production from giant equipment manufacturers who see their future in newer communications technology.

The seven regional operating companies created in the breakup of the American Telephone and Telegraph Company "still have several million lines in service in smaller communities using electromechanical switching," Glover says.

"These switches are reliable. The main parts of the switch will last a hundred years if maintained and oiled. As for the high-wear part, the pulsing re-





John L. Schwartz saw an opportunity to provide continuing training for fellow psychiatrists and has expanded his seminars into a monthly newspaper.

lays that last only five or six years, we have now designed an electronic replacement that will last indefinitely."

Com Pro is the successor to a company that went broke a little over a year ago. That company was overburdened with debt, orders were down, and it had an uneconomical production system. It specialized in reconditioning telephone equipment. A large part of its debt was incurred to buy, for about \$1 million, tools, dies, parts, 40,000 engineering drawings and a backlog of orders from ITT Corporation to manufacture several kinds of switches. ITT was getting out of that part of the market,

Glover, who was president and part owner, invited James L. Fri, Jr., a Memphis gasoline jobber, to bid for the company's 48,000-square-foot plant and other assets at the bank foreclosure sale. Fri formed a family corporation with his wife and son, put up \$115,000 in cash and raised the rest of the nearly \$1 million purchase price with loans.

Fri says Glover showed him that the company's potential lay in its ability to manufacture at lower cost than others a product that would have a market "long past the time I expect to be in business."

The new owners worked out a mission statement outlining the company's strengths and weaknesses. "We decided our goal was to be the main supplier and manufacturer of electromechanical communications equipment in this country and to focus on that rather than spreading ourselves around in other activities," says Fri, now company chairman. Then the company launched an ad campaign in trade magazines.

The work force, which had numbered as many as 200, was cut by degrees to 22. "We now have a universal work force," says Glover. "They move around. One day they may be core winding, another day wiring switches, another day adjusting relays. We used to have a person at every work station, whether there was work or not."

Com Pro has already held discussions about taking over more manufacturing under contract from its two remaining giant competitors, AT&T and General Telephone & Electronics Corporation.

Fri admits that his timing in buying the company was fortuitous. Com Pro's improved prospects are due in part to economic recovery, particularly overseas, and in part to the fact that the operating companies, which used to buy equipment only from AT&T's manufacturing arm, Western Electric Company, now can choose their suppliers.

Glover's advice to other companies trying to find their way:

"Plan, and then work your plan. You

must give constant attention to your plan, how it is meeting its goals. If you make a one-year plan and wait 12 months to see if it has succeeded, that's too late."

-Harry Bacas

## An Environment For Growth



Paul Woodruff's firm specializes in environmental consulting, to help industry manage the "insults" to the environment that inevitably go with prosperity.

Sometimes it is just not safe being in the environmental consulting business. Paul H. Woodruff, president of a West Chester, Pa., consulting firm, Environmental Resources Management, Inc., recalls a tense Sunday a few years back when his associate, Kent E. Patterson, called from Atlanta. Would it be possible, Patterson asked, to obtain extra life insurance by the next day?

Patterson was to go to rural Heard County in western Georgia on Monday to appear at a public hearing on a proposed hazardous waste landfill that an ERM client company wanted to develop. The area residents were dead set against it. Vandals had burned a \$150,000 drilling rig that a subcontractor had brought in to gather geological data, and the rig's driver had been threatened.

State police were on hand to prevent anyone from getting into the hearing armed. Nevertheless, Patterson were a bulletproof vest. Fortunately, he did not need it. There was a lot of "hollering," Woodruff says, but no shooting.
Usually, ERM's business is more
placid. The firm has carried out national and international assignments for
more than 500 corporations and govern-

ment agencies.

Typical projects include conducting an environmental audit for a manufacturing complex, evaluating groundwater contamination for a chemical company and suggesting remedial actions,

designing a wastewater monitoring system for a petrochemical company, and planning a sludge plant aeration system for a municipality that needed to improve its wastewater facilities.

Woodruff sees ERM's job as helping industry "manage the insults to our environment that go with the prosperity we want." With rare exceptions, he says, American industry has been responsible in its efforts to protect the environment. But, he cautions, "there's no such thing as zero risk."

A civil engineer by training, Woodruff started ERM in his home in 1977.

Now Woodruff has one of the larger environmental consulting firms in the United States. Its professional staff numbers more than 130 nationwide, and revenues in 1984 ap-

proached \$12 million, up from \$6.8 million the year before.

In addition to its headquarters, the firm includes nine regional affiliates—operating as separate companies—throughout the country. The head of each affiliate shares in its ownership. Some affiliates also have their own branch offices, giving ERM a presence in a total of 18 cities.

"Our strategy has been to find talented people who can build a business," says Woodruff. "We all work harder because we're working for ourselves. It's just that simple."

When Woodruff says that the exciting part of being an entrepreneur is being able to grow something, he does not mean just the bottom line.

"Growing the business gives you the opportunity to grow people," he says. "We have developed a setting that not only lets me accomplish some life goals but permits me to help other people do the same thing."

-Sharon Nelton



# What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
SUPERFUND	Authorization for the nation's toxic waste dump cleanup program will expire September 30. Business wants the program funded at a level the Environmental Protection Agency says it can manage and any new regulations subjected to careful cost/benefit analysis.	Members of the House and Senate. Superfund must be reauthorized at a level EPA says it can spend prudently. Reauthorization should not become a vehicle for a host of new untested regulatory programs that will prove costly.
TAX REFORM/SIMPLIFICATION	Treasury has proposed overhauling the existing tax system. The President has endorsed simplification and lower rates in principle. Several alternative plans are expected in the 99th Congress; businesses need to be aware of these various tax proposals.	Members of the House and Senate Do not allow taxes to be raised un- der the guise of reform. Changes should improve the performance of the economy by increasing incen- tives to work, save and invest.
FISCAL '86 BUDGET	The administration has submitted its comprehensive fiscal 1986 budget. Savings are projected to come from freezing and cutting some domestic programs and limiting Pentagon funding.	Members of the House and Senate. The best way to reduce the federal deficit is to halt the explosive growth of federal spending and promote pro-growth tax and regulatory policies.
GROVE CITY	The House is likely to move quickly on a radical extension of federal civil rights regulation. Many businesses would be subjected to new affirmative action rules and regulations, on-site compliance inspections and, possibly, private lawsuits.	Members of the House and Senate Support the administration's bill for a simple reversal of the Supreme Court's Grove City decision. Oppose broad expansion of federal regulatory authority under the guise of reversal.
IMMIGRATION	Sponsors of a controversial immigra- tion reform proposal will push for early consideration in the 99th Congress. Their plan would impose employer sanctions, forcing businesses to en- dure massive recordkeeping burdens.	Members of the House and Senate Oppose employer sanctions. The cost of a government function, im migration control, should not be transferred to business. Record keeping would be an administrative nightmare.
EXPORT ADMINISTRATION ACT	Congress must renew the Export Administration Act, the nation's basic technology transfer control law. The President is currently monitoring exports under emergency powers.	Members of the House and Senate Business and government are ea- ger for a sound export control law Reauthorization should preserve contract sanctity.
IRS AUTO RECORDICEPING	The Internal Revenue Service has issued regulations requiring employers to withhold taxes on the value of company-provided motor vehicles. To avoid being taxed, employes must keep detailed, contemporaneous logs of business use.	Members of the House and Senate Overturn the IRS rules. Car logs will prove to be an administrative bur den for salespeople, service repre- sentatives and others who travel for both small and large companies, as well as for farmers and ranchers.

## We're Looking For A Few Good Naysayers

"The single most difficult word for a politician to utter is a simple, flat 'no.' "

President Reagan made that comment in submitting to Congress the first federal budget of his new term. It calls for drastic cutbacks in some of the most popular spending programs in the long history of federal largess.

The upcoming debate over that hard-hitting fiscal plan will determine whether his analysis of politicians' reticence remains valid.

He poses a difficult challenge to legislators steeped in the tradition of building political support with the help of the federal Treasury.

The President is calling for spending restraint that would affect veterans, farmers, students, beneficiaries of a wide range of federal credit and insurance programs, the elderly and recipients of funds under many social programs.

He told Congress: "It will require political courage of a high order to carry this program forward in the halls of Congress."

The alternative? If federal spending trends remain unaltered, deficits for fiscal years 1985 through 1988 will total nearly \$1 trillion. That flood of red ink will bring the cumulative federal debt to \$2.5 trillion.

As it takes up the President's budget, Congress should be fully aware that the American people demonstrated overwhelmingly in the 1984 election that they no longer want to travel down that road.

## The Three Words That Unleashed a Storm

Just three words among the several thousand that made up the Deficit Reduction Act of 1984 have produced a massive wave of protest from business (see article beginning on page 90).

Those words are "adequate contemporaneous records." The law specifies that such documentation will be needed to justify business deductions for vehicles, computers and other property that also can be used in personal activities.

To implement the law as it applies to vehicles, the Internal Revenue Service imposed massive recordkeeping requirements to be kept on a trip-by-trip basis, which could mean hour by hour. The roar of protest from business followed.

The IRS has agreed to modify its rules somewhat. But many problems and inequities remain. Too many taxpayers would still be subjected to the onerous original rules.

The answer lies not in tinkering but in eliminating the excessively broad language that caused the problem in the first place.

After repeal of the controversial provision, Congress should first determine whether a problem really does exist and, if so, what is the most reasonable solution.

## A Misconceived Program That Deserves To Die

In a master stroke of bad timing, Congress adopted a major new program to deal with effects of the 1980-82 recession just as that downturn was ending.

The Federal Supplemental Compensation program was established to pay an additional 24 weeks of unemployment benefits and to authorize use of unemployment compensation taxes—for training, relocation, lump-sum payments and other outlays to the long-term unemployed.

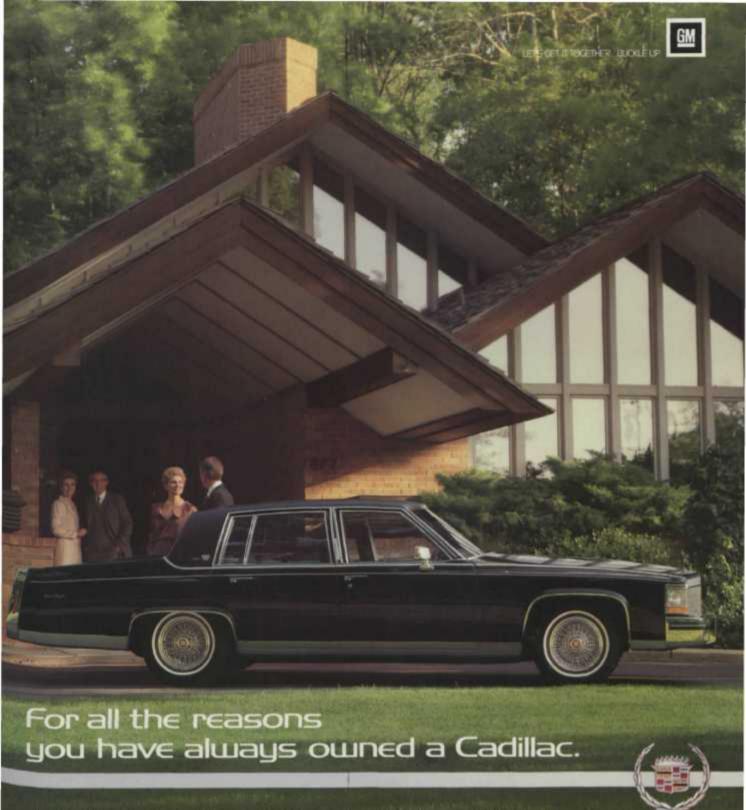
The law is up for renewal March 31, but Congress should let it die.

It has been amply demonstrated that extending jobless pay simply delays efforts to find new jobs.

And using unemployment compensation taxes to assist the long-term unemployed is a distortion of the system.

The system was established to help the temporarily and involuntarily unemployed bridge the gap between jobs. It cannot, nor should it try to, solve the complex social problems that are usually responsible for the plight of the hard-core unemployed.

The Federal Supplemental Compensation program, a bad idea to begin with, should be terminated.



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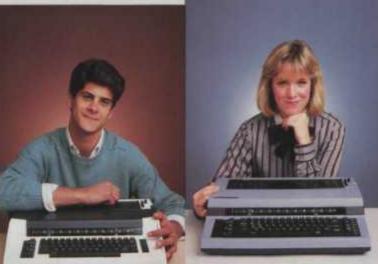
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